the
# Freeman
Ideas on Liberty

OCTOBER 1979

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For a better Freeman

# Manuscript Guidelines

The editorial committee of The Foundation for Economic Education welcomes the opportunity to consider scholarly articles exploring and explaining the principles underlying a free-market economy.

Though a necessary part of the literature of freedom is the exposure of collectivistic cliches and fallacies, our aim is to emphasize and explain the positive case for individual responsibility and choice. Especially important, we believe, is the methodology of freedom: self-improvement, in contrast to compulsory reform of others. We try to avoid name-calling and personality clashes, and find satire of little use as an educational device. Nor do we advocate or sponsor political action as a cure for problems caused by political action. Our trust is in the "wisdom of the market."

Manuscripts should be typed double-spaced, including footnotes, tables, quotations, and references. A transmittal letter should fully identify the author and indicate if the manuscript has been published or is being submitted elsewhere. Length may vary, but generally should not exceed 3500 words; shorter articles are welcome.

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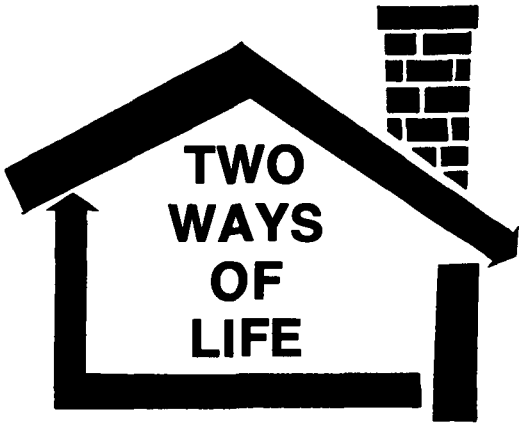
Robert G. Anderson




In his 1859 classic, *On Liberty,* John Stuart Mill observed that, "The only freedom which deserves the name, is that of pursuing our own good in our own way, so long as we do not attempt to deprive others of theirs, or impede their efforts to obtain it."

The application of this philosophy of freedom to economic affairs simply means freedom of choice in the marketplace. It means the freedom, in our dual role as producer and consumer, to conduct our own daily affairs without interference from others.

Throughout the world it may be observed that individuals do not have this kind of freedom of choice. Not only communist nations regulate and control the lives of the citizens, but even in noncommunist countries these freedoms once enjoyed are being rapidly lost. Nowhere, it seems, is freedom defended as a philosophical absolute. At best, it is tolerated as a pragmatic necessity rather than upheld as a sovereign principle.

The structure of society is all-important in its impact on individual freedom. The institutions of society may be designed to maximize individual liberty, or society may be designed to give a ruling elite power over the citizenry. To put the matter more simply—a society may be structured for freedom and production, or it may be structured for slavery and plunder.

The extent to which individual behavior is influenced by external forces is far more profound than may first be realized. The so-called "way of life" in India, Russia, Argentina,

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or the United States dramatically affects human action. How the individual lives and acts is ultimately dependent upon values learned from the society in which he lives. While all individuals have a common source in their Creator, our formulation of values radically differs as each of us is exposed to different living experiences.

This uniqueness of each individual possessing values different from all other individuals *can* be the source of a free society based on peace and harmony. Unfortunately, this condition of differing values can also lead to the structuring of a totalitarian society based on conflict and violence. The great question is why this latter structuring of society has been the most prevalent one throughout human history.

### Axioms of Economics

While it is true that men can impose artificial structures upon society, nevertheless, there exist certain universal laws which operate irrespective of these structures. Certain economic axioms can be observed from our very nature. They have guided mankind from the beginning, and will continue to do so as long as man's nature is unchanged. Four of these axioms need to be mentioned.

Axiom number one: *we live in a world of scarcity.* It is true that the general well-being of individuals is better today than in the past. But this improvement has in no way eliminated scarcity. It merely reflects a reduction in the degree of scarcity, and could be transient, depending on the decisions we make in the present and future. As long as man exists, the problem of scarce resources exists.

The condition of perpetual scarcity follows from axiom number two: *man's insatiable appetite.* No matter how many of man's wants are satisfied, there always remain additional wants to be fulfilled. There are never enough resources to supply all of our wants: Unlimited wants, but only limited means for satisfying them.

This combination of insatiable wants and scarce resources is a universal condition of man's existence. It has always been true, it is true today, and it will remain true as long as man lives. And it is in terms of this condition that the economic questions of production, distribution, and consumption must be resolved.

The reality of our basic economic problem leads to axiom number three: *we must constantly make choices.* The determination of what to produce, by whom, when, where and how much must be made. In addition, these same questions must be answered regarding distribution and consumption. Who gets what, and when, where, and how much.

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What is certainly clear is that not everyone can have everything, now.

One final observation about man's nature should also be made. Axiom number four is that *we all want more for less*. This trait can lead to either good or evil. Perhaps above all else it explains why the path taken by man in the structuring of society has been so consistently authoritarian. The acquisition of more through plunder under socialism rather than more through production under capitalism has always marked the difference between these two systems of social organization. The present-oriented mentality of individuals has too often concluded that plunder is the better way because it seems the quicker way to obtain more for less.

### The Role of Private Property

No type of society established by man can in any way avoid these universal economic axioms, though the nature of the system determines how these universal laws will manifest themselves. The basic problem of allocating scarce economic resources toward the satisfaction of human wants must be faced in every society.

The rapid decline or total loss of individual freedom throughout the world today may be traced to one major cause. Furthermore, this same cause can also be seen in the rapid growth of socialist societies and the destruction of capitalist societies. The cause of our lost freedoms has been *the destruction of the institution of private property*. Quite simply, the nature of property ownership determines whether man will be free or enslaved.

In order to understand why this is true, an examination and comparison of socialism and capitalism is required. In our world neither capitalism nor socialism exists in its perfect theoretical form. Today's societies are variations of capitalism or socialism. The relationship of property ownership to individual freedom, however, is best understood by a contrasting of the pure socialist society with the pure capitalist society. Very quickly, it will be seen that these two forms of social organization are diametrically opposed in both philosophy and structure.

The first problem we encounter here is that the socialist ideal has never been defined, even by the very people who advanced it. It is true that Marx and other socialists, at various times, did offer glimpses of the socialist fantasy as it would work in some never-never world. The romantic pronouncement: "From each according to his abilities, to each according to his needs," has frequently been heralded as the banner of the ultimate socialist state. The socialist dreams of a wonderland in which

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scarcity no longer exists and all of our wants can be readily fulfilled.

### The Socialist Fantasy

No better glimpse is available into this fantasy world than Karl Marx's observation of that future socialist state, "a society where each one does not have a circumscribed sphere of activity but can train himself in any branch he chooses, society by regulating the common production makes it possible for me to do this today and that tomorrow, to hunt in the morning, to fish in the afternoon, to carry on cattle-breeding in the evening; also to criticize the food—just as I please—without becoming either hunter, fisherman, shepherd or critic." And it could well be added to such fantasizing, "but if wishes were horses, beggars could ride."

To analyze socialism by defining it as some imaginary fantasy of a romantic idealist is meaningless. The only definition of socialism that is relevant is the social structure that is in reality advanced. The main characteristic that identifies socialism is the common ownership of the means of production, distribution, and exchange. Or, as Karl Marx states it in a single phrase, socialism means "the abolition of private property."

Socialism, as a structure of social organization, is therefore recognizable by the nature of property ownership. Under socialism the resources of the society are collectivized and centrally administered by some form of political bureaucracy. This arrangement of common property ownership inevitably forms a vertically structured society; a political elite establishes itself as the sovereign power over the whole society.

### The Problem of Production

No society, socialist or otherwise, can escape the necessity of productive effort. Under socialism, it is the State, as the owner of all economic resources, that determines how the factors of production will be employed. Establishing a socialist society does not nullify the basic economic problems of scarcity and insatiable human wants. The when, where, how, who, and what to produce problems must be resolved. By the same token, the problems of distribution and consumption are also present. What is different about the socialist society is the manner in which these economic problems are handled.

The socialist theoretician has two complications in his theory: the first is the absurdity of advancing a concept of common ownership for consumer goods. It is ludicrous to imagine the whole of society owning the food about to be eaten by some individual or the toothpaste to clean his teeth. In this respect, even the

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most extreme socialist recognizes that the concept of common ownership of property cannot be universally applied.

The second complication in the collectivization of property ownership is the realization that not everyone can own everything nor can everything be controlled by everyone. The concept of socialism, the common ownership of property, necessarily requires that someone be in charge. And modern socialism, without exception, has named "the State" as this absolute authority.

It is this second point that invariably makes the socialist society authoritarian. The socialist likes to speak of the state as the agency of society, but in reality the State is the sovereign force dominating the society. Property under socialism is not owned in common—it is owned by the State. It cannot be that everyone is in charge. The State is in charge. The State becomes the owner and the controller of all productive property.

### The State as Owner

State ownership means absolute ownership. That is, the State is not only the legal owner of all productive property but the economic owner as well. All decisions relating to property use are the total prerogative of the State. The State establishes a plan for the structuring of society, and as sole property owner, directs all economic activity toward the implementation of its plan. Under such a concept of State ownership of productive property the practice of individual freedom is impossible. There is no private property for use in production, and therefore no economic activity that can be performed privately.

Many individuals have a partial understanding of this aspect of socialism. They recognize that at least one factor of production, capital, will be owned by the State under socialism. The machines to build cars and tractors no longer will be owned by individuals, but instead will be owned by the socialist State. Others have recognized that the factor of production, land, will also be owned by the State under socialism. The land used for growing crops or raising beef will no longer be owned by the farmers, but instead will be State owned.

But many individuals need to be reminded that there are three factors of production and that all three are owned by the socialist State. And it is the State ownership of this third factor of production that absolutely assures the loss of individual freedom. That third factor of production is labor, the labor of individuals, including you and me. Under socialism the individual is denied a proprietary interest in his own person. Like the factors of production, capital and land, the labor of each

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individual is owned and controlled by the State. This State ownership and control of labor precludes freedom of choice to the individual in the directing of his own life.

### Enslaving the Individual

The collective ownership of labor under the central direction of the socialist State results in the regimentation of human beings according to the structural plans of the State. Rarely, if ever, do the central plans of the socialist State correspond to the plans and interests of the individual. Ultimately, the State must resort to the use of force against those individuals whose values are in conflict with the socialist plan. The State ownership of labor is merely a disguised way of subordinating the individual to the sovereign will of the State. The very essence of socialism assures, therefore, the destruction of individual freedom of choice—the freedom of each individual to choose for himself how he will direct his own life.

The growth of socialism throughout this century has demonstrated this lesson without exception. Wherever the State has replaced the market in the allocation of economic resources, the freedom of individuals in the employment of their labor has been infringed. This has not been a development just within the Iron Curtain countries; it even occurred under Labor Party rule in England after World War II. When the State owns your labor, the State controls you.

The socialist society can also be critically analyzed from the point of view of economic inefficiency. The absence of a market makes economic calculation impossible. Without a price system there is no way to determine either the costs of production or the economic value from the output of production. Neither efficiency nor inefficiency—neither profit nor loss—from productive effort can ever be known under socialism. The destruction and waste of scarce economic resources inevitably follows from this dilemma.

In addition, the collective ownership of property destroys individual motivation. The care and accumulation of property is directly related to personal possession. It is in our nature to value our own property more highly than property belonging to others. And the socialist concept of collective property is always the property of others to any one individual. The incentive to produce for others can never match the incentive to produce for self.

While such criticisms of socialism are a major indictment against this structure of social organization, they relate primarily to economic improvement and our material well-being. The far more overwhelming case against socialism

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concerns the loss of individual freedom that inexorably follows from the State ownership of property.

### Individual Ownership

In contrast to socialism as a structure of social organization, the capitalist society advances the concept of private ownership of economic resources. Both social orders recognize the necessity for property ownership and its control. They differ totally, however, as to who will own and control property. Socialism centralizes all ownership in a sovereign State. Capitalism is based on private ownership.

The ownership and control of property by individuals, rather than by the State, leads to a drastically different society than that which develops under socialism. Perhaps the most obvious and immediate result is the vast decentralization of ownership and control of property. Instead of a single State owner under socialism, the capitalist society is characterized by millions of individual owners.

It is certainly true that under capitalism some individuals own more property than others. It is equally true that some types of property are far more valuable than other types of property. Under capitalism, this inequality of property ownership is accepted for what it is—a given condition of man and his nature. Invariably, the statement that inequality is a part of man's nature creates resentment. Inequality of property ownership is particularly offensive to many. But whether we approve or not, it is a reality that persists in every social structure, including socialism.

While certain individuals do possess more property than others under capitalism, it must be recognized that even the poorest member of the society at least has a proprietary interest in himself—he owns his own life. Under socialism the ownership of self is denied to the individual. All productive property, including labor, is owned by the State.

Attacks against inequality of property ownership center largely upon land and capital. Even if equality could be attained with respect to the ownership of land and capital—and it cannot be—what about inequality of labor ownership? Inborn traits of intelligence and physical abilities differ significantly among individuals, and to deny these inequalities among individuals is to deny our very being.

The important point is that under capitalism the individual ownership of property exploits inequality or differences among individuals in a way that advances freedom and material well-being. Inequality is a condition of our nature; it cannot be eliminated by any social system. And whereas socialism aggravates this inequality, capitalism creates the

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beneficent division-of-labor society out of these natural inequalities.

The capitalist social structure places total sovereignty over property in the hands of the individual who owns it. What each person does with his land, labor, and capital is exclusively his own decision. Each individual owner is free to pursue his own good in his own way. He becomes totally responsible for himself and his possessions. His values, and his plans, are the primary force in the directing of his life and the employment of his property.

### Government's Role

The philosophical framework of the capitalist society requires a system of laws—a government—to assure that the life and property of individuals are safeguarded. The role of government in a capitalist society is to establish and execute laws designed to keep the peace. As Mill observed, attempts by any to deprive others of their freedom must be prevented, and the force of law is essential to this end. Government in the capitalist society is symbolized by the blindfolded goddess of justice. The rule of law equally protecting life and property is fundamental to the development of a capitalist society.

When individual life and property are secure, a spirit of social cooperation will materialize. Individuals quickly discover the personal advantages of specialization and exchange. A nation of traders transforms itself into a free market economy. With market prices as their guide, and motivated by the potential of profit, individuals bring their resources into production for the benefit of consumers.

It is the development of this pattern under capitalism that has led to such descriptive synonyms as the free market economy, the private property order, the competitive enterprise system, the consumer sovereign society. All these descriptions are valid, for each recognizes some important attribute of the society. Undergirding it all, however, is the central point that property ownership must be a sovereign, absolute right of the individual.

Socialist planning is built upon a common social goal executed through the central direction of the State. It represents total planning of societal objectives by political action, and the implementation of these objectives by a bureaucratic corps within the socialist State. Under capitalism, however, the planning is done by individuals pursuing their personal goals. Through the signal of market prices, consumers direct production toward the satisfaction of their individual wants.

Once again the socialist society radically differs from the capitalist society. The structure of socialism is

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a product of State planning with a politically established central goal. The structure of capitalism is market determined by the actions of millions of individual consumers. Under socialism the State decides what society needs, but under capitalism the consumer decides his own needs and acts accordingly.

### Who Makes the Decision?

In any society, it is the nature of property ownership that determines who wields power. Proclamations declaring a right to individual freedom are empty unless the individual is allowed to acquire and possess property and thereby is empowered to exercise his freedom. The sustenance of life is property, and the loss of this sustenance by the individual to the State assures the loss of his personal freedom as well. The ownership of self, denied by the socialist State, is fundamental to human freedom. Only under capitalism, where the institution of private property is guarded as a sovereign right, can the individual own himself and be free.

The extent to which individual freedom has been lost throughout the world today can be gauged by the corresponding loss of private property rights. The encroachment by government over the control of property has literally destroyed any concept of absolute private property rights. The use of property has increasingly come under the direction of government, even though nominal ownership may still be retained by the individual.

In the United States today it is impossible to find a single example of productive property that is not in some way controlled by government. Such interference by government has but a single purpose—to obstruct consumer and producer freedom of choice and substitute therefor the will of the State. The sole end of all such activity is to shift power over the structuring of society away from the individual and into the hands of the State. Loss of control over one's property to the State is nothing less than a direct assault on individual freedom.

The perplexing question that continually faces the devotee of individual liberty and private property rights is why socialism is so alluring while capitalism generates such hostility? The freedom and prosperity experienced under capitalism has been a demonstrated fact that is in stark contrast to the enslavement and inefficiency of the socialist society. Yet the intellectual allure of socialism dominates social thought throughout the world today. Unless a firm philosophical framework is formulated on spiritual and moral absolutes conducive to a free society, man can quickly succumb to the allure of socialism through the pursuit of base motives.

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**The Critics of Capitalism**

No better example of the allure of socialism can be observed than by witnessing the intolerance expressed against the structure of the capitalist society. Critics of capitalism refer continually to the misallocation of productive resources under capitalism, and the need to alter the allocation of resources to meet "nobler" objectives. These critics invariably call upon government power as the means of forcibly altering the structure of society to achieve their aims.

The problem, as they see it, is that the structure of the capitalist society is determined by the behavior of consumers in the marketplace. Productive resources are employed to create the goods and services that individual consumers desire. Under capitalism the structure of society is determined by market forces in such a way as to provide what everybody wants. The profit or loss from market activities directs privately owned productive resources toward the satisfaction of consumer demands.

Capitalism, therefore, responds to what everybody wants; but herein lies its dilemma. *Nobody wants what everybody wants!* Our differing individual values will never conform to the values of all consumers. In the absence of tolerance for the values of others as expressed in the marketplace, it is extremely tempting to impose the State's design upon society. As Friedrich Hayek so aptly observed in *The Road to Serfdom,* every socialist sees his plan prevailing over society; he sees himself as planner and not as one of the planned. To the intellectual, the attraction of socialism is in this belief that he will be the planner of society; that he, rather than the decisions being made by millions of consumers through the marketplace, will determine its structure.

The hostility to the capitalist society as it responds to what everybody wants, rather than to what someone thinks everyone should want, is a primary reason why many find the socialist society so appealing. Under socialism, the socialist, rather than the consumers, will plan society.

While the capitalist system rewards the productive and thrifty individual and motivates everyone to imitate these virtues, such a system generates an inequality of possessions that can create base feelings of greed, guilt, and envy. Once again, a firm philosophical framework is necessary to temper the urge to follow such base instincts. Temptations to use the State to seize another's property out of greed and envy assures destruction of the capitalist society as the law is transformed from an instrument of justice into a device for legal plunder. By the same token, feelings of guilt from possessing more property than

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others must be replaced with a feeling of responsibility and stewardship toward the employment of that property for the benefit of consumers.

And finally, what is perhaps the most difficult characteristic to accept about the capitalist society is the inevitable change brought about by competition in the marketplace. No one likes change. Yet the only certainty of a free society is that it will be a society of change. Such change is mandated by the consumers as they act out their preferences in the market. Productive resources are constantly bidding against one another as the successful displace the unsuccessful in response to the demands of the consumer.

These ever-changing values of the consumers keep the market in a constant state of flux. The competition of producers responding to such ever-changing values assures that some will profit while others risk loss. The demise of old goods and services from the competitive thrust of new goods and services demands continual adjustment on the part of consumers and producers. This adjustment, brought about by competition in a consumer sovereign capitalist society can be overwhelming to many, as the old and familiar is displaced with the new.

The socialist society is seen as a way out for such people. While an escape from change is an illusion, the static nature of the socialist society holds appeal. The tragedy, however, is what is not seen. Out of the static structure of the socialist State has come a "graveyard" society of death, slavery, and human misery. A society that promised good, has delivered evil. In the words of Ludwig von Mises, the twentieth century's most outstanding free market economist, "good intentions aren't enough."

The future of civilization, of man's material progress, and especially his freedom are dependent upon the structuring of a society based on the institution of private property. In the final analysis, the man who is not permitted to own property becomes the property of someone else; man either owns or is owned.

IDEAS ON LIBERTY

**William Graham Sumner**

THE accumulation of property is no guarantee of the development of character, but the development of character, or of any other good whatever, is impossible without property.

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**Kenneth McDonald**

# The Fight for Free Enterprise

DECADES of governmental intervention in, and regulation of, the market economy have all but obscured a fundamental truth: that an economy which encourages competitive free enterprise is the most productive both of material wealth and of individual freedom.

The case for industrial capitalism rests not only upon material grounds but upon spiritual and ethical grounds as well. When people are free to apply their creative energies to better ways of doing things, when they are free to contract their labor to enterprises that take their fancy and to put something aside from the fruits of that relationship, they add to the country's material wealth and to the capital stock from which the means to create more wealth is drawn.

The independence that follows from these undertakings enables the people who engage in them to pursue, at other times, whatever activities appeal to their talents and inclinations.

It needs only to observe the condition of people in countries where they are not free to do those things to be reminded of what is at stake. The multitudes that greeted the Pope during his remarkable and courageous progress through Poland bore witness to a yearning for the freedom which totalitarian communism is at pains to suppress.

One of the contradictions of industrial capitalism in a liberal democracy is that the freedom it sustains opens the field to freedom's oppo-

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nents. Mouthing slogans—social justice, equality, war on poverty—that cloak their designs in a mantle of morality, they would use the state to limit the economic freedom upon which the other freedoms depend.

Yet the failure of state intervention to achieve any of their professed aims—in fact its success in achieving precisely the opposite—is self-evident. Moreover, the prophet under whose banner the collectivists march saw this himself.

In *The Road to Serfdom,* Friedrich Hayek wrote: "It is pathetic, yet at the same time encouraging, to find as prominent an old communist as Max Eastman rediscovering this truth: 'It seems obvious to me now—though I have been slow, I must say, in coming to the conclusion—that the institution of private property is one of the main things that have given man that limited amount of free and equalness that Marx hoped to render infinite by abolishing this institution. Strangely enough Marx was the first to see this. He is the one who informed us, looking backwards, that the evolution of private capitalism with its free market had been a precondition for the evolution of all our democratic freedoms. It never occurred to him, looking forward, that if this was so, these other freedoms might disappear with the abolition of the free market.' "

In the West today the current of opinion is running against big government. Swimming with the current, political leaders protest their devotion to thrift and good housekeeping.

### Entrenched Bureaucracies

However welcome this change of political direction may be, the task cannot be left to politicians alone. Both they and the businessmen whose affairs have suffered most from governmental intrusion are opposed by forces highly resistant to change.

Regulatory boards and commissions and agencies that have exercised their mandates for years past will not relinquish power without a struggle. Nor do they lack allies. The products, in press, politics and academe, of decades of collectivist teaching will not be slow to defend its tenets. Attempts to dismantle the state's apparatus will be attacked from all sides.

Is it not apparent that repulsing those attacks must fall in the main to the businessmen who are the targets for the state's intrusion? Not only is it in their interest to do so but also in the public interest.

Championing the system that enlarges the freedom of individuals is a worthwhile endeavor by any measurement. That it should coincide with the interests of private business and of the private individuals who, working in and for private

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business, make up the great majority of citizens would appear to be doubly fortunate.

Despite that coincidence, who can doubt that the forces of intervention, the forces that oppose freedom, are still winning?

In numbers a small minority, they have access to a substantial armory: the inertia that protects all bureaucracies, the publicity commanded by a sympathetic press and by academic opinion-makers, above all a fragmented opposition.

Brought up in the tradition of democratic government, businessmen are accustomed to respecting its agencies. It is against their instincts to question the actions, much less the authority, of the officials who staff them. They have been slow to realize, in short, that the government they had looked upon as friend and protector has become their enemy and that they are in a fight.

### Creativity and Achievement

Arming themselves for it, is not their strongest weapon the knowledge that their cause is just? Governments and the bureaucracies they spawn claim to be dedicated to "the people's welfare." The claim is false. Government's power is coercive. By forcing people to act in certain ways, or by preventing them from acting as they would choose to act in others, government restricts freedom. When its social programs seduce people into a condition of dependency, government robs them of a precious gift—independence.

By contrast, businessmen are concerned not with "the people" in the abstract but with people as individuals. Throughout the working day it is not governments, not bureaucrats, that are involved with people, but businessmen. Providing employment and training that build up skills, they strengthen independence. Recognizing that employees are their most valuable resource, they supply the foundations on which to build full and happy lives.

The contest is between the forces of reaction that suppress freedom and those of creativity and achievement that enlarge it. It is between reactionaries who would force their discredited ideas on others and the true progressives who prize the self-reliance that brings new ideas forward.

In that contest, businessmen constitute a prime source of leadership. Against the fanciful plans of their opponents they can set lifetimes of experience.

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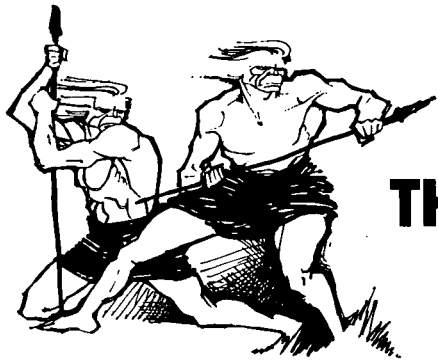
Robert LeFevre



# THIS IS MINE

THE PURPOSE of economic study is to predict. The reason so many turn to the economist for assistance does not relate to his ability to explain what has happened but to an assumption that he can foretell what will happen.

In general, it is presumed that the individual who can best explain why things interacted as they did in the past will be best able to foresee how things will interact in the future.

In consequence of market demand for a preview of coming events, most economists rely heavily on what is called the empirical method. That is to say they gather relevant data from what has transpired year by year. They take into consideration other factors which appear to bear upon the area in question. The data assembled, the economists now chart a curve into the future, setting down the probabilities relating to tomorrow, next week, month and year.

There is merit in this procedure. While a probability is not a principle, one must have respect for it none the less. It is far better to rely on probabilities than to stare into a vacuum.

It is at this juncture that the Austrian school of economics emerges as the single exception to the general rule of economic forecasting. The Austrian disciplinarians were among the first to remind us that mathematics does not govern the lives and times of man. What has happened in the past does not control the future. While statistical data may very well assist us in understanding what has transpired, it is wholly unreliable when it comes to foretelling future events. Thus, the Austrian economist seeks to discern the principles of human action

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and to express them, not in mathematical terms, but in terms of fundamental, ultimate givens as to the nature of man, the nature of the world man lives in, and how the two must and do interrelate.

This procedure has tended to obscure the importance of Austrian theory and practice.

### How Many Toothpicks?

The public, and most notably that part of the public engaged in what we popularly refer to as the "public sector," dislikes being reminded of the laws of reality. Public and politicians alike clamor for information as to how many toothpicks should be manufactured next year as opposed to last year. The Austrian economist shrugs and explains the laws of pricing, supply and demand.

Meanwhile the empirical economist performs his calculations and announces that there will be a demand for 2,729,453,000 toothpicks, according to the laws of probability. With these assurances the makers of toothpicks find great comfort. Somewhere between the probabilities of the forecasters and the ears of the producers there arises an assumption of certainty.

The number in the prediction is, of course, incorrect. However, it is frequently close enough to the truth, so that the error is in the low percentage figures. Year by year this practice of forecasting empirically will come close enough to the bull's-eye to gain credibility and acceptance. And then, one year, for reasons which did not exist earlier, so far as can be known, a massive change occurs. Either a new and unimagined market for toothpicks arises, or, for unexplained reasons which remain invisible, the public turns away from toothpicks and either uses something else or abandons the habit of picking their teeth.

In years such as these, the empiricists beat a hasty retreat and belatedly explain that random factors unknown to them at the time caused an error. None the less, they will insist, their figures were correctly determined, as, indeed, they were. It's just that the answer was wrong.

We happen to be passing through such a time right now. Enormous changes are occurring. These changes disclose that many of our forecasting economists have a great deal to be modest for.

I have set down the foregoing, not as censure of the empiricists, but rather to remind those of us who are fundamentally Austrian in orientation that despite weaknesses there is none the less merit in probability. While principles cannot be demonstrated mathematically, this does not mean that we should abandon mathematics. Where uncertainties exist, probabilities are enormously significant, provided we recall that

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our answers deal with likelihoods rather than absolutes.

In the final analysis all knowledge is based on axioms and an axiom is no more than a straight line statement of evidence which is not susceptible of proof.

While the purpose of economic study is to predict, I am not attempting a forecast in this essay, save only in the most general way. Therefore, I am not engaged in an economic study as such. Rather, I am seeking to examine the nature of man and the nature of the world man lives in so as to comprehend that most fundamental of all relationships, that of individual man to the earth, and the things of the earth. That relationship at the present time is generally called private ownership of property.

The origins of ownership are lost in antiquity. It is doubtful that we will ever know where the concept of private ownership first appeared or who the individuals were first practicing it.

The ignorance to which we must admit, in this case, should not discourage us. We are ignorant of so much that one more blank page in the human record should make us feel right at home.

Since we cannot read about subjects where no written records exist, we have no way of basing our calculations on relevant data. No such data are available. Currently throughout the world, we find differing customs and practices respecting the ownership of property. It appears that reality does not demand any particular practice or belief respecting property. Instead, what appears is that there is a cause-effect relationship emerging from whatever the property customs may be in a given situation. Thus, when certain kinds of beliefs emerge, the cultures which, in general, hold to them appear to improve their standards of living. When the beliefs change, and property customs are altered, standards of living decline. But we have no absolute evidence. Indeed, we are left only with probabilities. Perhaps we can have respect for these probabilities, even though hard evidence is lacking. Let me begin with the nature of man.

## Survival in a World of Scarce Resources

Man is a consuming, sensitive, complex organism. As a newly born infant he is among the world's most helpless creatures. It is immediately apparent that for man to survive, he must obtain sustenance from a source or sources outside himself. Man is not equipped at birth with a power pack to drive him through life. This oversight means that if he is to survive, he must learn to dominate his immediate surroundings to some degree and in his own personal interest, or perish. It is at once evi-

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dent that whatever he ingests in the way of food or fluids becomes peculiarly his own. Private ownership of property begins at this point.

If Descartes was correct in stating: "I think, therefore I am," each of us is equally correct in saying: "I eat, therefore I own."

It is doubtful that primitive man, in recognizing his dependence upon things outside himself, thought of so sophisticated a concept as most of us now think when we use the word, "own." Rather, it is probable that early man, to the degree that he used his mind for reasoning, translated his craving for food and beverage into little more than justification for action where his abilities made it possible for him to take what he wanted. This is a far cry from what the concept of ownership often includes today.

Thus, early man probably thought in terms of possession rather than in terms of ownership. To possess is to have a property under one's physical control. In cultures which had not yet evolved beyond the foraging and hunting stages, ownership, as we think of it, may not have appeared at all. In such a culture the question of right and wrong is not raised. There is no question of control of a property during the absence of the possessor. The only logical questions are these: (1) Do I have the ability to get my hands on something I want; and after that, (2) Do I have the ability to keep others from taking it from me as long as I happen to want it?

## Evolving Man

What kind of human behavior evolved? There are at least two distinct schools of thought emerging respecting man's basic reaction to the realities he faced. Some argue that man is only a step removed from a killer ape and that his behavior in early days was violent and aggressive against others of his kind. This is entirely possible.

Others argue that man was more reasonable and tractable and imbued with a natural instinct to interrelate harmoniously with members of his own species. This is also entirely possible.

Indeed, it is possible, and even likely, that human beings vacillated between peaceful and violent behavior in earliest times. If so, they are still acting out their basic nature today which, by turns, is both harmonious and hostile.

It seems to me that when an individual member of the genus *homo* became imbued with fear that others might take away something which he craved, he would then become hostile and violent toward the individual or group that threatened him. At the same time, if he sensed in himself a feeling of confidence in his own ability, *vis à vis* the ability of others—or, on the other hand,

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sensed a willingness in others to work in cooperation with him—then he would be tractable and cooperative.

This apparent duality made human conduct unpredictable and, hence, dangerous. It is only when our knowledge of reality can reasonably predict the consequences of our own actions that we have the necessary confidence in ourselves to behave reasonably and at peace with one another. Gradually, and I suspect over long years, generations or even centuries of human experience, the first great economic lesson was driven home.

When a man thinks only of himself and lives in fear of what others might do to him (the fear of loss of one's possessions) then he will be driven into isolation. When he is isolated the likelihood of his survival is reduced.

### The Division of Labor

It turns out that human beings, by their natures, need each other. Not one of us has enough brains, muscles, energy or time to achieve all that must be achieved if we are to stay alive. Even though we may fear each other and distrust one another by reason of our natural nonpredictability, to have a reasonable expectation of survival requires more than one human being can provide. The economic lesson which necessity compelled us to learn is called "division of labor." I use the term here in the broadest possible sense. Not only in respect to sharing chores and in trading with others, but in the dawning realization that no one can do it alone.

Thus, long, long ago, humankind began to live in groups, and the duality in our natures was acted out. We must possess (own) certain things as individuals or perish. But in order to possess ourselves of these things, we need each other. Thus we had to learn to overcome our fear of how others might behave. Indeed, in our own personal self-interest, we found it necessary to become interested in the well-being of others. While we feared others, we also learned to fear not having them around. What was best so others could survive had to be equated with our own survival. Caught between the proverbial "rock and a hard place," we survived as suspicious, distrustful, dissatisfied, avaricious groups. The groups made it. Those who persisted in living in isolated safety did not have descendants.

Whenever we think of possession or ownership, we must also think in terms of the property involved. What is it we wanted to possess? In order to cope with the question of ownership we must sooner or later deal with what it is human beings wish to own.

It is entirely likely that the first items viewed as property, and hence

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the first objects of our drive to possess, were those items for which we had natural (instinctive) urges.

### Basic Drives

The very first objects which created the necessity for a division of labor unquestionably were food and water. There are two other drives, however, that are nearly as primary and must have occupied human attention from the earliest of times. They are the drive for territory and the drive to mate. Again we have two schools of thought as to which comes first. Some argue that a territorial imperative takes primacy over sex. Others put it in reverse. I frankly admit that I do not know. Both are in evidence.

What does appear probable, however, is that the drive to mate was acted out by individuals, much as the drive for food and drink. It is also probable that the drive for territory was equally individualized at the beginning, though this would have been less likely of fulfillment. It is far more difficult to control a territory according to one's own wishes than to control another human being. After all, human beings can glimpse that it is in their own best interest to pair off with a mate of their choosing and to repel a mate not of their choosing.

The land makes no decisions and it does not act in favor of its own highest utility or preference.

I choose to deal with mating first, but such choosing does not endorse any specific chronology.

All of us have mental images of the cave man selecting a bride by belting her over the head with some handy object and dragging her off. I suspect that in early times it was the woman who most frequently made the choice, although I do not mean to gloss over male aggressiveness. What appears likely is that the woman looked over the males available to her and, having chosen, began to make herself as alluring as possible to the male of her choosing. Instead of attacking him physically, she probably sought to awaken in him certain latent yearnings.

It appears that under primitive conditions, man's sex drive was far less assertive than it presently is in what we often inaccurately call "civilized" times. Men were probably preoccupied with getting food, after which they were exhausted. Beating up an exhausted male isn't calculated to stimulate affectionate behavior. Not that the woman was incapable of physical conquest over a man. A cave woman could probably have given as good an account of herself in a rough and tumble bout as any man.

Perhaps the woman was guided by an inner sense, an instinct, of the long period of pregnancy and its corresponding reduction in her physical abilities. It is certain that

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she usually envisioned more than a mere romantic dalliance. She was looking for a mate to sire her child and, in addition, to serve as a provider who would stand by and help her when she could not help herself. So it is likely that the woman thought of "her" man as a possession. He "belonged" to her. And she would seek to influence him to her advantage when she was not capable of knocking him down. I do not seek to discount the probability that primitive women had far less difficulty with child delivery than modern mothers. The travail was intense enough to cause pre-arranging—planning.

**Woman's Role**

When the infant was born, there was no question any longer. The infant belonged to the mother. If any man doubted it, the mother could hand over the infant to the father with instructions to feed it and keep it quiet. Following a few episodes of this nature it is doubtful that many males proclaimed ownership over very small children, at least in early times. It is equally doubtful that the male let the woman get away with such an assertion without challenge. Feeling a bit as though he had been used, the man probably agreed that she owned the child, but that his ownership was now transferred to her. I suspect a trade-off. The child was hers. But she was his. That evened it up. He would support her, but she had to support the new-born.

Women were probably the first of our species to deal successfully with abstract reasoning. With a show of submission and sweetness she was probably far from feeling, the woman smiled her Mona Lisa mystery and accepted the deal. She well understood that if her mate owned and possessed her, the child would benefit. She would continue to possess her mate but would let him think otherwise. Besides, at the moment she probably didn't want a physical contest.

Thus it appears probable that food, water and women were among the first properties—the first items possessed by males. In process, it appears that the woman possessed the child and with that kind of ownership established, obtained managerial status over the domestic scene including management of her mate. The woman was probably the first of our species to comprehend that guile, indirection and the use of reason are superior and more practical devices than brute force.

The first acquisition of territory probably occurred in conjunction with pregnancy. Like any nesting sparrow, the woman desired a place of safety for the delivery and rearing of her young. So it seems to me that our diverse views as to the primacy of sex as opposed to territory come together and are not opposed.

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Man, the hunter, follows the game trails, the flights of birds, the schools of fish swimming in the sea. Man, the forager, follows the seasons, shifting from place to place as leaves and grasses green and fruits bud and ripen.

But man, the father, returns to his mate and inadvertently to his child to see that they are cared for during many weeks, months and even years.

I have no idea how long the idea lay dormant, gestating, as it were, in the minds of hundreds of our kind. But presently there emerged the concept of a hunting, foraging territory which would also contain the place of safety for women and children. With the formation of tribes and tribal territory, the concept of public or collective ownership or possession emerged.

### Rules Concerning Possession and Use of Land

Our natures demanded private control of certain assets on a personal level. But since we all wanted territory it must have seemed sensible and logical for the humans in a given area to pool their abilities (again, division of labor) when it came to land. A single male or family unit might be able to defend (possess) a relatively tiny patch of ground. But more than a tiny patch seemed desirable. If the families in a given region would pool their abilities they might defend a much larger and more useful piece of land.

Up to this time I have used the terms possession and ownership either jointly or as synonyms. I wish to make it clear, however, that ideas of ownership as we presently use the concept had not yet surfaced. What any individual owned was only that item or those items which he could physically control and defend, personally or as a tribal unit. Possession is based on force.

I have no doubt that the weakness of this practice was apparent for long years before anything occurred to bring about revision. In simple terms it meant the survival of the fittest on a direct, combative basis. Man had not yet learned to produce in any systematic way. While he may have manufactured some rough hand axes made of stone, and possibly a few other hand tools, these were relatively easy to keep on one's person or near enough at hand so that any potential thief could be driven off at once.

Thus, the lion's share of the food and water, and even the women, went to the most powerful and aggressive male. And indirectly to the sharpest and most cunning female. It meant that the biggest bully in the territory got first (and even second) pick. The rest of the living humans got what was left, undoubtedly in descending order relating to their strength and cunning.

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At last another characteristic of human development became visible. Men began to specialize, either as hunters or foragers, or as makers of tools. It turned out, eventually, that the brute force necessary to win a fight didn't necessarily single out the most valuable person in the tribe. I have no idea how it actually occurred, but let me hypothecate a situation predicated upon the appearance of an old man, with outstanding ability as a toolmaker. As a hunter he was too slow. As a forager he tired too easily. But as a toolmaker he was unsurpassed. It is entirely conceivable that at the outset, every time he finished an axe, someone grabbed it and he was incapable of preventing that theft. Theft invariably discourages production.

### Protecting the Specialist

At the outset, it is likely that the tribal interest in the old man's tools was sufficient so that they hunted and foraged for him and rushed to his defense whenever he was attacked. He was viewed as a public asset, like the territory they all occupied and defended. However, a major distinction was finally observed. The occasional thieves, who appeared in force to threaten their territory, were outsiders. But the thieves who threatened the old man's axe production were insiders, members of his own tribe. A different form of protection was needed if the old man's production was to be made safe.

I have little evidence to support what I am about to say. I follow a hunch. I think the shaman or witch doctor first appeared about this time. This meant the formation of the first religion. The individual who set himself up as the first theologian was also, in all probability, the first psychiatrist. He offered an abstract concept which was far too complex for most of the tribal members to comprehend.

In order to be understood, he elevated his own status among his familiars by claiming that he was in touch with forces and embodiments which he could communicate with, but which were invisible to the average fellow. It was far easier to instruct his peers with the idea of obedience than with the complicated economic reasoning leading to the desirability of leaving the toolmaker unmolested.

It was the wish (he must have explained) of the great invisible deities who inhabited everything and who controlled life and death, that the toolmaker be left unmolested. But it was also the wish of these divinities that the necessity of dropping everything they were doing to rush to the toolmaker's defense be overcome. Instead (he must have suggested) the deities wanted the old man unharmed and, there-

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fore, if anyone harmed him, the deities would deal with that person in frightful and terrifying ways. Rescuing him constantly from themselves was impractical. Other chores had to be done or they would all die.

What the old man was working on was his, even if the old man wasn't strong enough to defend it. Therefore, deity would defend the old man's possessions. Out of this, the concept of right and wrong emerged and, with it, the concept of ownership as opposed to possession. No longer would a person's ability to act be the single criterion of what he ought to do. Rather, the wishes of divinity provided the criterion. Even though a man had the ability to take away the production of the toolmaker, such an act would not be tolerated. It was wrong. To do right was to act within one's ability but, in addition, to act in accordance with divine dictates, regardless of ability.

Clearly, the strongest and most ferocious could always take what he wanted. But the tribe was dependent now, not only on the strong but on the skillful. And the skilled artisan must be able to predict peaceful and orderly respect for his abilities or he would become discouraged and would no longer employ his skills.

It is probable that the high level of sensitivity of the olfactory nerve at this remote period aided and abetted the wisdom of the shaman. Any person could tell who possessed any object. All one had to do was smell it. The odor of the owner was easily detected. Man has a most distinguishing scent. Thus, if you picked up a tool your first task was to sniff to find out who, in fact, possessed it. Ownership became a matter of odor as opposed to force. Gradually this concept was extended to include all members of the tribe, not merely the old toolmaker.

It must have taken many years, but the idea of owning by prior possession, rather than by might, gradually gained ascendancy among those humans who were most thoughtful and most advanced.

No major culture has ever emerged that was built upon possession and force exclusively. For production to occur, there must be long periods of time in which peaceful non-molestation is the order of the day. Force is a poor tool with which to obtain lasting calm and serenity. Production and trade, the devices which build what we call civilizations, are erected on ideas of ownership rather than ideas of possession. It is in this sense that human society is constructed upon a moral base: a recognition of the difference between right and wrong. There must be an understanding of the sanctity of boundary, and a broad adherence to support of such sanctity, for a culture to endure or advance. ⊕

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Leonard Franckowiak

# "The King Is Dead"

JEAN AND I and our two daughters, Cindy, age 9, and Gretchen, age 4, spent a delightful four days camping along the Illinois River.

It was a most peaceful and rewarding trip: no telephones, no television—just nature and family and our modern-day camper. And just as was predicted, after the hiking and the cook-outs and the marshmallows and a game or two of Old Maid or Mickey Mouse, Cindy and Gretchen were ready for bed, and Jean and I spent the late hours of the night in quiet enjoyment and reading. Well, without television, what can one do? Might as well read a book. Reading is a good habit to return to and, besides, who knows? We might even learn something! Anyway, Jean was reading a novel and I was reading Professor Ben Rogge's new book, *Can Capitalism Survive?*—which brings me to the point of all this.

Cindy saw the book and said, "Daddy, what is 'capitalism' or whatever that word is?" And, well, I was called. (Don't you see? Somebody—even though she's nine years old—somebody wanted to know what capitalism is.) And I was thrilled to answer. Four hours later, with Cindy sound asleep, I was still talking about capitalism. Well, that's not true either, but there I was, on the spot—my daughter wanted to know what capitalism is, and I had to come up with a simple answer which hopefully would make sense and satisfy her curiosity. What should I say? Finally: "Capitalism," I said, "is where you're free to do anything you want as long as you don't hurt anybody; you can do things without a license from government." Well, with a little discussion about drivers' licenses and building permits, Cindy was satisfied, but by then I had been set to thinking.

I started thinking about all of the licenses and permits required by our government, and I came to a stark realization. "Why," I thought

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**Mr. Franckowiak is a businessman in Chicago. His business includes a weekly radio program in behalf of freedom, entitled *We Still Have 55 Per Cent* (referring to the portion of personal earnings not taken by taxes). "The King Is Dead" is from the script of a recent broadcast.**



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to myself, "the king is dead!" One by one I began to review those occupations which now require a government license: beauty operator, barber, doctor, lawyer. . . . The government is becoming the great Controller . . . plumber, real estate salesman, insurance broker, bus driver. . . . In the name of public good we all work or don't work in our chosen professions at the convenience of the state . . . certified public accountants, engineers, architects, and taxicab drivers. . . . Why, the state has absolute control over our very means of livelihood . . . pharmacists, nurses, teachers. . . . We need permits to operate a bank, a liquor store, a restaurant or a grocery store. There isn't a profession or business in America that isn't under the control of government—not one place, in all of America, the land of the free. I even needed a permit to camp at Starved Rock. Capitalism, the king, is dead! I didn't have the heart to tell my daughter Cindy.

My mind began to swirl. I called to mind the case of a man in Shelby, Michigan. He was going to build a new house for himself to replace his old broken-down shack. He was going to build a house, that is, until the county building inspector came along. You see, the owner hadn't taken out a building permit to build his house.

"No," the inspector said, "there wasn't anything wrong with the way the house was being built." The owner was doing good work and "yes, the new house would be a lot nicer for the neighborhood" and "yes, the owner was building the house on his own land," and "no, the neighbors were not complaining." As a matter of fact, the neighbors were helping.

Well, then, what was wrong, Mr. Inspector?

"Well," said Mr. Inspector, "for one thing, you must have a set of stamped approved plans, and yes, by all means, you must have a permit. You can't do any building without a permit."

And so the owner was hauled off to court.

"No," said the judge, "you cannot keep the building inspector off your property." "Yes," said the judge, "it is your property—but you cannot keep the inspector away. Government has a right to inspect. You are wrong, you cannot build a house on your own property without a permit; and because you have continued to build your house in violation of the law, I sentence you to jail—to jail, Mr. Property Owner." And the king is dead.

And so is the tree house in Hackensack, New Jersey. You see, some nice people there wanted to build a tree house in their backyard, and they know about permits. They

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know the law: You can't do any building without a government permit—so they went to the building department for a permit.

But the inspector told them there was no tree house listed in the building code, so, no, they couldn't get a permit. "If it ain't listed in the code, you can't build it."

But, my goodness, other people in town have tree houses; why can't we? thought Mr. and Mrs. Owner. So they had carpenters build the little tree house. It cost $400.

"No," the inspector said, he didn't think it was a safety hazard but "it's not listed in the building code, and, well, the tree house was built without a permit."

"Guilty," said the judge, and he fined Mr. and Mrs. Owner $20 plus $10 in court costs, but "That's not all," said the judge—"You have illegally built your little tree house and therefore you are hereby ordered to tear it down. If you fail to do so you will be held in contempt of court, and yes, I will send you to jail. Don't you know you can't build anything without a government permit?" in the United States of America, the land of the free.

And the roofers and the carpenters need licenses to operate and so do the truck drivers and the morticians. No, you can't bury the dead without a license.

What *is* capitalism, Cindy? Capitalism *was* a system, Cindy. It was a system practiced in a country called America—the sweet land of liberty; it was a system where every man, woman and child were free to follow their own special star; it was a system where people were free to do anything peaceful so long as they did no harm to their fellow man. Capitalism was a system which gave the people of our country the highest standard of living on earth and in the process allowed them to enjoy the blessings of liberty and the dignity of human existence, free from the intervention of the state.

Can you go work when you're a teenager, Cindy? Well, I suppose so—if you get a work permit. Can we have a tree house in our backyard, Gretchen? Well, yes, we do have an OSHA-approved stepladder for you to use, and we could get a licensed contractor to build it for us, but you see, we need a government-issued building permit. What's a permit, Daddy? Daddy, what is capitalism? The king is dead, and we still have 55 per cent. ⊕

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**Editor's Note:** *Can Capitalism Survive?* by Dr. Benjamin A. Rogge is available from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533. (329 pages. $9.00 cloth; $3.50 paperback.)

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Clarence B. Carson

# The Hidden Fallacies Behind Intervention

THE NECESSITY for government to intervene in the economic realm is widely accepted today. The media of communication frequently report interventionist measures in much the same manner as they do natural occurrences. Television anchor men announce the latest intervention in the same tones that weathermen predict the winds tomorrow will be westerly and blowing from 5 to 15 miles per hour. Presidents usually have an assortment of economic experts to guide them in meting out intervention. Congress passed a full employment resolution in 1946, and it has come widely to be assumed that this aim can be achieved by a variety of government measures. The chairman of the Federal Reserve Board is generally recognized as a crucial figure in government's interventionist activity. Government subsidizes, penalizes, breaks up, restrains, limits, compels, regulates, protects, initiates, and controls economic activity in myriad ways.

Government intervention is not new to our era, of course. As far back as we have records of such activities, there are indications of the practice. It is probably safe to say, however, that never have so many different sorts of interventions been carried out simultaneously with such thoroughness and tenacity. Earlier interventions were mostly hit or miss affairs, often crude and unwieldy. Nowadays, interventionists operate with an arsenal of statistics, surveys, computers, and the technology in which we are most proficient.

What makes all this so remarkable is that prior to the last two hundred years or so, economic inter-

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Dr. Carson has written and taught extensively, specializing in American intellectual history. His recent series in *The Freeman, World in the Grip of an Idea,* is being published by Arlington House.



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vention could be ascribed mostly to ignorance. That explanation does not go down so well in our era. Great strides in economic thinking have taken place. Thinkers have focused attention upon it and as might be expected have made many important discoveries. Economics has been shaped as a precise intellectual discipline over the past two centuries. Every sort of intervention has been subjected to rigorous analysis and its consequences explored.

### Economists Divided

I am not suggesting, of course, that all economists are in agreement with one another. That is decidedly not the case. Nor is it likely that in so broad and comprehensive a field they ever will be. What is strange, however, is that their deepest disagreement lies in that very area and concerns the most fundamental question with which economics has to deal. Namely, they are divided over the feasibility and workability of government intervention in economy. It is not simply that they disagree over how much intervention is wanted, which we might expect, but they disagree fundamentally over whether there should be intervention or not.

For example, here is a statement from a recent textbook on economics describing the necessity for intervention:

> In this chapter and the next we turn from economic analysis to economic policy. Our concern will be with government measures that promote full employment, encourage growth, and prevent inflation or deflation. We have seen that an economic system like ours, when left to itself, sooner or later either becomes overstimulated . . . or loses some of its momentum. . . . How to prevent an enterprise economy from "slipping off the track" is perhaps the most important problem in applied economics today.[1]

One of the ways that government may effectively intervene, he says, is by monetary policy:

> Monetary policy is the course of action pursued by the central bank authority. In the United States it consists mainly of the way the Federal Reserve uses its three main controls. . . .
>
> If used skillfully this set of controls can be very helpful in keeping the economy on an even keel. The difficult thing is to learn the art of using them skillfully—the art of monetary policy.[2]

By contrast, here are statements by other economists on the impact of intervention. In a classic work on the subject, the late Ludwig von Mises put it this way:

> However, all the methods of interventionism are doomed to failure. This means: the interventionist measures must needs result in conditions which *from the point of view of their own advocates* are more unsatisfactory than the previous state of affairs they were designed to alter. These policies are therefore contrary to purpose.[3]

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Milton Friedman has these comments on various interventionist measures in the United States:

> Is it an accident that so many of the governmental reforms of recent decades have gone awry, that the bright hopes have turned to ashes?
>
> I believe the answer is clearly in the negative. The central defect of these measures is that they seek through government to force people to act against their own immediate interests. . . .[4]

In even stronger terms, Murray Rothbard declares that "government intervention" leads "inexorably to hegemony, conflict, exploitation of man by man, inefficiency, poverty, and chaos."[5]

In short, there are interventionists and non-interventionists. It is as if physicians were divided between the position of Christian Scientists, for example, and that which the medical profession in general holds toward disease. Such clear-cut differences suggest differences in premises. It is well, then, to turn to the tacit premises of interventionists.

The idea that government can intervene to good effect in the market is based on analogy. In the first quotation above analogy was twice used to suggest what was being done. The first referred to economy as if it were a train that could be kept from "slipping off the track." The next compares it to a boat which must be somehow kept on an "even keel." A paragraph or so further on the same writer likens what the Federal Reserve is supposed to do to depressing the accelerator or brakes in an automobile. It may be best, however, to abandon these analogies drawn from transportation, to which this writer appears to have a bent, and get to the fundamental conception.

### Outside Guidance

The basic idea from which intervention derives its animus is that the market and economy require the action of an outside agent in order to function well. Experience is replete with analogues for this belief. The basic idea is one of effecting cures or making repairs by intervening in systems. It is the idea that when things are out of kilter you fix them by making alterations. It is one of man's basic ways of fronting and dealing with the world about him.

The root idea of intervention can be simply illustrated from medical practice. Physicians and surgeons perform their services most often by intervening in the human system. They intervene in order to kill some infecting agent, to remove some obstruction, to correct some defect, and the like. Surgeons intervene by performing operations: setting bones, cutting out diseased tissues or organs, or repairing something. Physicians introduce foreign substances into the system, usually or-

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ally or by injection. While all these interventions are more or less dangerous and potentially harmful, they are for the purpose of healing. Similar practices in veterinary medicine further reinforce the concept of remedial intervention.

Mechanics perform analogously on machines. They do not intervene so drastically as doctors do—machines being often constructed so that they can be worked on easily—but the conception of the good intervention receives support from their work. They may remove engines to work on them or take whole machines apart. Only rarely are "foreign" substances introduced into machines during repair, but if they are they are usually removed before the repair is complete.

Indeed, the intervention to improve or correct is so commonplace that examples abound. Most servicemen are interventionists: plumbers, electricians, television repairmen, tree "surgeons," landscapers, house remodelers, and so on. Auditors intervene in accounting systems in quest of weaknesses or chicanery. Efficiency experts intervene in the productive process to save time and energy. Tailors alter clothes; cooks add seasoning to their dishes; authors rewrite their scripts; and farmers mend their fences.

Indeed, there are universal truths which make expedient these interventions to heal, repair, mend, and correct. All physical things decay; bodies become diseased; parts wear out; and human beings are imperfect. Intervention in bodies, systems, organizations, and products is man's way of ameliorating, for a time, the universal decay and imperfection. Although we do not ordinarily think of most of these efforts as intervention they nonetheless undergird the general concept and provide examples of the worthwhile and useful intervention.

There is an important result that is essential to what I shall call the good intervention. Indeed, when phrased as a question it is the definitive test of the good intervention. As a result of the intervention, *Is independence of the intervenor reestablished?* The purpose of medical intervention is to heal the patient. It is to get him back on his feet, to get him functioning normally, to have him able to look after himself, to make him as nearly independent as possible given his circumstances. The purpose of mechanical intervention is to restore the machine to working order. The norm for the good intervention is that there comes a point when the intervenor is no longer needed. The doctor dismisses his patient. The mechanic announces that the automobile is ready to go. The plumber declares that the pipes are unclogged and that the water system now works. Inde-

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pendence of the intervenor has been accomplished. (Not all "good" interventions have these happy results, but that is the norm for them and the end for which they were undertaken.)

### Fixing the Economy

The idea of government intervention in the market and economy derives its motive force from this character of part of the universe and man's way of dealing with it. The notion that it is good and desirable arises from the known types of good interventions. Underlying this is the notion the market and economy suffer from some defect, infelicity, disharmony, or harmful tendency which stand in need of correction.

Many supposed defects have been highlighted over the years. Some have held that private property in land introduced fundamental injustices in the economy. Others have held that workers do not receive their proper share of the fruits of production in the market. Unemployment has been ascribed to a defect in economy. The disparity between farm and industrial income has been attributed to market weaknesses. Here are some of the difficulties arising from the market and economy as described in a recent textbook. The author refers to them as problems:

> What are these problems? For capitalism, we have but to refer to the micro and macro sections of this text. Disequilibrium, instability, misallocation of resources, and inequality of incomes are results of the economic process in *every* society in which there is private ownership of property and a market determination of prices. Whether we look to Japan or Sweden, the Union of South Africa or the United States, we see similar tendencies toward too much or too little growth, inflation or unemployment, a struggle between the private and public sector, and a highly uneven division of incomes between the property-owning and the working classes. These are problems as specific to capitalism as the problems of guild life were specific to feudalism.[6]

It is such problems, then, that government intervention is supposed to solve. Such economies are, so to speak, sick, broken down, not working properly, in need of healing, repairing, mending, altering, or what have you. They need, we might suppose, to be restored to proper working order according to prescription administered by government. They need, we might further suppose, to be got back on their feet, to be made to work well independently of the intervenor once again.

But is that how government intervention in economies works? Does it straighten out what is wrong so that economy will work well on its own? There is no evidence to that effect. On the contrary, intervention neither corrects the alleged defects nor restores the independence of

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anything. Mises described the matter succinctly some years ago:

> What these people fail to realize is that the various measures they suggest are not capable of bringing about the beneficial results aimed at. . . . If the government, faced with this failure of its first intervention, is not prepared to undo it . . ., it must add to its first measure more and more regulations and restrictions.[7]

### Perpetual Dependency

This pattern has been amply demonstrated in American history. The railroad industry is a striking example of how such intervention leads to perpetual dependency on government. When the Federal government first began to regulate the railroads by the Interstate Commerce Act in 1887 its aim was to prevent monopolistic abuses and promote competition among the lines. After the passage of the Esch-Cummins act in 1920 about the only competition permitted between railroads was in service. But rates became so closely tied to profits that before long railroads were vying with one another in reducing services. Since profits were, in effect, restricted, the railroads sought to perform only those services with the least risk and effort entailed. This tendency was further aggravated by the fact that government subsidized or supported alternative modes of transportation.

The railroads became increasingly dependent on government. They depended on government for rate increases, for opening new lines, for closing old ones, for dropping or adding service, and for the rules under which they could operate. They have become almost entirely dependent for the operation of passenger trains, since most passenger service is now provided by AMTRAK. CONRAIL is in the freight business, and several eastern lines have lost most of what remained of their independence. Innovations can be made usually only after lengthy and widespread hearings. Even new types of cars must be subjected to examination to determine what impact their use would have on alternative types of transportation.

Another example of government intervention which established dependency on government was the Social Security Act of 1935, and later changes in it. The main purpose of the act was through special taxes to build up a fund through which benefits could be obtained on retirement. In theory, the individual might be relatively independent with this income. In fact, the individual relying on Social Security payments is entirely dependent upon government for what he gets. He has no claim on what he has paid in. He will only receive such payments as Congress decides from time to time he may have.

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But everyone is drawn into a circle of dependency on government by the intervention in the money supply. Although there were earlier and have been other interventions, the crucial one in the twentieth century has stemmed from the Federal Reserve Act of 1913. The Pujo Committee Report (from the House Committee on Banking and Currency), issued in February of 1913, detailed a concentrated control over money in the United States by a few New York banks. This concentration, the Committee alleged, had come about as a result of bank consolidation, interlocking directorates, and bank control of insurance companies, railroads, and utilities. The Report provided the most immediate thrust for the passage of the Federal Reserve Act a little later in the year.

### The Federal Reserve in Theory and Practice

The Federal Reserve system was supposed to break up this alleged concentrated control of money and the dependence of the country on a few New York banks. Twelve Federal Reserve banks were set up, each to cover a different region of the country. They were authorized to issue bank notes and discount commercial paper, among other things. In short, they were given power to increase and decrease the money supply. Since the notes of these banks were legal tender, and since the banks have greatly increased the amount of their issues over the years, they became the currency of the United States, and even silver coins were eventually driven out of circulation. (Bad money drives out good when it is supported by tender laws.)

Whatever the case may have been for the dependence of the country on a few large banks, there can be no doubt that the people of the United States are now dependent on the actions of Federal Reserve banks. When they increase the money supply, the value of everyone's money declines. Many institutions and organizations have become dependent on the surges of inflation in order to operate. Labor unions depend on increases in the money supply to get continual money raises for their members. Inflation fuels the expansion of industries. Since money no longer serves effectively as a store of value people cast about in many directions in the quest for something that will be. The "Fed" cannot control the economy with any precision, but it can, and does, take away the stability of prices by which people might manage their own affairs.

The persistent belief in the efficacy of government intervention—in the face of all the reason and evidence to the contrary—rests on two false analogies. The first is a misconception of the nature of government. The second is a misconcep-

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tion of the nature of the market and economy. Let us turn first to the false analogy about government.

### Government Is Force

Government is not analogous to a physician, a surgeon, a veterinarian, a mechanic, a plumber, a tailor, or a repairman. It has no healing in its wings. It cannot heal, mend, repair, alter, or otherwise fix things. It is that organization with the monopoly of the use of force in a given jurisdiction. It can only be effectively used in the ways that force can be used.

If we must conceive of government on analogy with some job or function, we had best choose one that fits it. Analogous figures by which government may be personified are: soldier, policeman, jailer, judge, tax collector, law maker, foreign diplomat, and executioner. Although opinions will differ as to which is the best for personifying government, my preference is *jailer*. Jailer captures the essence of government for me. He locks up, confines, obstructs, prohibits, restrains, and orders around those in his keeping. That is essentially what government can do by the use of force. His instruments are guns, blackjacks, handcuffs, straitjackets, cells, and bars. Compulsion is his mode of operation. The jailer is government in the final analysis; those who would know a particular government should learn of it first of all by visiting its jails and prisons, if they can do so.

None of this is said in derogation of government. Government is necessary because in every jurisdiction there will either be a monopoly of the use of force or a contest over it. The contest over it is undesirable because the appeals to arms toward which it tends is civil war. More, government's task is an honorable one. It is to keep the peace. It does so by monopolizing the use of force, punishing violators, and settling disputes. It is well that men should stand in awe of those who govern, that they should be fitted with such trappings of office as will command respect, and that contests with government authorities be verbal and carried on within a framework of ritual. But it will never do to forget that beneath the velvet glove of government is the mailed fist. That mailed fist cannot heal or mend; it can only be used to force people to some course of action against their will.

### The Body Politic

The other fallacy arises by conceiving of the market or economy as analogous to the human body, to machines, to organizations, to physical objects, or to manmade devices. The market and economy do not belong to that order of being which breaks down, wears out, rusts, corrodes, is diseased, decays, warps,

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gets stopped up, gets out of kilter, or what have you. They do not stand in need of medication, surgery, oiling, greasing, stimulating, dilating, altering, adjusting, repairing, auditing, or even the ministrations of efficiency experts.

The market and economy belong to the natural order. They are analogous to gravity, the speed of sound and light, buoyancy, action and reaction, and molecular structure. But they are different from these in one highly significant way. There is an order for things and an order for man. The law of gravity, for example, is a part of the order for things. The market and economy belong to the order for man. Man as a physical object is, of course, subject to the law of gravity, but he is not an active participant in it. By contrast, man is an acting participant in the market and economy by way of his reason, volition, morality, and the use of his faculties. Man cannot alter the nature of the market and economy, but he can disrupt, distort, and obstruct their operation. He can use them or abuse them. They are a part of the moral framework within which he lives, and he may choose his course but not the consequences of it. That is the order for man.

The essential feature of the market is this. It consists of those exchanges which take place when willing buyers and willing sellers meet. The essential feature of economy is this. It is what takes place when men in the pursuit of their own interests employ their resources so as to produce those goods that are most wanted with the least use of scarce land, labor, and capital. Economy is the reasonable means available to man to deal with the condition of scarcity which he confronts. The market is the social way for man to dispose of his surplus and acquire what he most wants from others.

### Voluntary Exchange

Force is anathema to the market. There is no market without a *willing* buyer and *willing* seller. The law of contract recognizes this character of exchanges. If either the buyer or seller uses force, i.e., violence, intimidation, or fraud, there is no agreement, and no valid exchange has taken place. One of the primary functions of government is to exclude force from the market and to provide recourse for those on whom it has been used.

Force is either irrelevant to or disruptive of economy. Man is naturally bent to pursue his own interest by using as little as possible of what he has to get the most of what he wants. If he cannot employ force in doing this, there is no alternative to economy. Government is as irrelevant to economy as it is to the working of the law of gravity. Water will run down hill whether there is posi-

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tive law to that effect or not. So will men behave economically.

None of this is meant to imply that government cannot act upon the market or economy or that its acts will not have impact. Clearly, the opposite is the case. Government can act, and its actions will have consequences. There are three broad ways in which government can act on the market and economy.

First, it can act in order to exclude force from the market and to settle disputes arising there. As already noted, this is a primary function of government and essential to the market. When government acts in this way it is acting profoundly in accord with its nature as a monopolist of force. The use of force by private parties is a challenge to government's monopoly. By settling disputes government is acting to maintain the peace. Government action to provide access to markets is an extension of the above functions.

Second, government can prohibit certain kinds or classes of exchanges. Examples with which Americans have been familiar from time to time and place to place would be prostitution, prohibition of the sale of alcoholic beverages, gambling, drugs, the showing of Sunday movies, and so on. If such prohibitions succeed, the effect would be that there would be no market for what is prohibited. That is rarely the result, however. If what is prohibited is wanted very strongly a market is developed and exchanges are made. It is not a free market, of course. It is sometimes called a black market, but it would be much more precise to call it a criminal market.

Legally, government cannot perform its normal function in this market. It cannot exclude the private use of force. It cannot maintain the peace. It cannot settle disputes. At law, no market exists; in its stead, there is criminal activity. Two things are characteristic of this market. Prices are much higher than in a free market because the supply may have been artificially reduced by the prohibition and because the dangers (both from the private use of force and from government punishment) must be compensated by the potentiality of high profits. The other is that force—crime—is rampant in this market: extortion, violence, bribery, and even gang warfare. When government prohibits exchanges in goods that are in considerable demand it necessarily excludes itself from performing its primary functions in any market that may develop. The rule of crime replaces the rule of law in such markets.

Third, the government can act upon the market and economy by intervention. Government intervention occurs when the government becomes an active participant in the

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market. There are thousands of ways to go about such intervention. The government may sell goods in competition with private sellers, be the only seller (have a monopoly), set minimum or maximum prices, establish quality controls, increase or diminish the money supply, levy taxes, limit access, empower certain groups, lay down rules as to when and where various types of exchanges may take place, give subsidies or pay bounties for production, penalize the buying of some goods, offer goods below the market price, require licenses, compel service, regulate, restrict, inhibit, control, and attempt to manage the economy.

### Consequences of Intervention

What happens when government intervenes in the economy? A great many things, obviously. Force is intruded into the activities. Government becomes a participant, is an interested party, and is no longer qualified to perform its function of settling disputes. Quite often, it has great difficulty in maintaining the peace because it has become a party to disturbing the peace. All sorts of distortions, disruptions, and obstructions occur; generally, the more intensive and extensive the interventions the greater these are.

Government intervention is a kind of self-fulfilling prophecy. It is premised on the notion that the market and economy are out of kilter and require the ministrations of a benevolent government. As soon as government begins to intervene, they do get out of kilter; it does introduce defects into whatever market or economy it intrudes. Each intervention sets the stage for an endless round of further interventions in the futile effort to bring the whole back into balance. Mises gives us an example of how this would work if government attempted to lower the price of milk for children. If the price is fixed below the market level, he says, there will be less milk available because many producers would lose money at that price. The government would then be faced with this alternative:

> either to refrain from any endeavours to control prices, or to add to its first measure a second one, i.e., to fix the prices of the factors of production necessary for the production of milk. Then the same story repeats itself on a remoter plane: the government has again to fix the prices of the factors of production necessary for the production of those factors of production which are needed for the production of milk. Thus the government has to go further and further, fixing the prices of all the factors of production—both human (labour) and material—and forcing every entrepreneur and every worker to continue work at these prices and wages.[8]

When looked at this way, we can see why what may be called the dependency syndrome arises from

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government intervention. When government intervention has proceeded very far, everyone involved in the market and economy becomes dependent upon government intervention on their behalf. If not, they will suffer from the imbalance thus produced. But since balance is never achieved, there must be continual adjustments.

It is as if one went to a physician seeking a cure and instead was given drugs which were habit forming and the dosage had to be continually adjusted and increased. It is as if one took an automobile to a mechanic and instead of fixing it he added parts which had to be continually adjusted by an expert in order for the vehicle to run. It is as if I called a plumber and instead of removing the obstruction from the pipes he declared that the difficulty lay in the fact that my system depended upon water running down hill. He might then introduce an extensive plumbing system to pump my waste upward out of the house. But that one would come into conflict with the direction of the fresh water supply, so that adjustment after adjustment would have to be made, all to no avail.

These are, of course, but poor analogies. The market and economy are not like unto human bodies, automobiles, plumbing systems, or organizations. They are the natural order by which production and trade can lead to prosperity. They are people producing and trading peacefully. Any attempt to alter it can only be done by attempting to change people. There is no body of evidence that shows this can be done to good effect where the natural order for man is involved.

Intervention, then, proceeds on the basis of two fallacies. One is a misconception of the nature of government. The other is a misconception of the nature of the market and economy. No one is likely to make these errors when he keeps clearly in mind that government can be personified as a jailer, that the market consists of that order within which willing exchanges are made, and that economy is simply using as little of one's scarce materials to get the most of what is wanted.

## —FOOTNOTES—

[1]Lawrence Abbott, *Economics and the Modern World* (New York: Harcourt, Brace & World, 1967, 2nd ed.), p. 395.

[2]*Ibid.*, p. 396.

[3]Ludwig von Mises, *Socialism* (London: Jonathan Cape, 1951, new edition), p. 530.

[4]Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 200.

[5]Murray Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing Co., 1970), p. 881.

[6]Robert L. Heilbroner, *The Economic Problem* (Englewood Cliffs, N.J.: Prentice-Hall, 1972, 3rd ed.), p. 722.

[7]Mises, *op. cit.*, pp. 532-33.

[8]*Ibid.*, p. 533.

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John Semmens

# MASS TRANSIT MESS

By virtually any measure, public transit is clearly a declining industry. In 1945 one third of the total urban passenger miles were accounted for by public transit. By 1973 public transit's share was under three per cent. In terms of income on passenger trips, urban bus line revenues declined by 24 per cent in the 1960-70 period. Of the 33 largest Standard Metropolitan Statistical Areas, every one of them showed a drop in the proportion of urban work trips made via public transit. At the end of World War II there were 33 billion urban transit trips taken per year. This had dwindled to 5 billion such trips by 1972.

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All of this decline in public transit has been accomplished in the face of enormous economic growth in other sectors of the economy, a great increase in travel in general, and in spite of massive doses of government financial aid. The message seems to be that, as has been practiced and is being practiced, public transit is not meeting consumer needs for transportation. Yet, despite this message, more money, time and effort is continually being poured into staid and traditional transit systems in the pitiful hope that shiny new vehicles or more frequent empty route miles will turn the tide.

There are important economic reasons why traditional public transit has consistently failed in city after city. There is less of an explanation as to how or why these



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economic realities can have been ignored in the making of public transit policy.

### Unnatural Monopoly

The policy implications of the "natural monopoly" concept are that since it appears that the economics of the situation can only efficiently support one firm, then only one firm should be permitted to exist under law. In this way, territories are established within which only one firm will be legally allowed to operate. Thus, it is believed that public policy can enforce efficiency and hold down the final price to the consumer by excluding all but one firm.

This policy has been applied to the provision of transit services. Throughout America, in city after city, single firms have been granted exclusive rights to specified territories or routes, in implementation of the "natural monopoly" theory. The only problem with the enforcement of monopoly in transit is that it is completely inappropriate.

The evolution of the motor vehicle and the development of an extensive road system must dispel any claim to "natural monopoly" status in transit. Whereas rail transit must rely upon a highly specialized roadbed, which can be amortized only by a limited number of users, motor vehicle transit is entirely liberated from the fixed cost of roadways. Streets, which must be constructed anyway, as the sole means of access to most businesses and residences, serve as the nonspecialized fixed assets of a broad spectrum of users. Consequently, the fixed costs of motor vehicle transit are very low.

Despite the potential for a wide degree of flexibility in routing and scheduling based upon the extensive publicly financed road system, most motor vehicle transit is operated as if it were confined to rail beds. This practice appears to have survived as an imitation of fixed rail services. The first public transit in many cities was performed by street cars. As technology produced alternative modes these were either outlawed (jitneys), severely restricted (taxis), or molded to mimic street cars (buses).

Just as the street cars enjoyed monopoly franchises to specified roadbeds, the practice was continued even after buses largely supplanted this fixed rail system. Since the heavy fixed investment argument on behalf of transit monopolies became rather ludicrous with the change to publicly owned roadways, a new justification for monopoly had to be devised. Thus was invented the theory of the inherent superiority of the "comprehensive integrated system." True, there were no fixed costs in terms of roadbed, *but* there was a perceived need for uniformity of ser-

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vice, the need for ease of transfer between vehicles and routes, and the belief that only if given a captive ridership via the banning of all competition would a transit operator have the incentive to develop the market.

The error implicit in the monopoly policy toward transit has been effectively demonstrated over time. Transit is not best served by monopolistic franchises. The operational characteristics do not impel a market structure of monopoly. The attempt to force such a structure has shaped the development of urban transportation for the worse. It is as if, King Canute style, public law has commanded the tide of transit technology to recede. The command has, predictably, failed. Instead of strengthening the public transportation system, enforced monopoly has played a significant role in destroying the prospects for public transit. The insistence on monopoly when monopoly was not appropriate has resulted not in channeling riders toward the only legally permitted service, but rather, has induced people to opt out of the system entirely in favor of privately owned automobiles.

### Price Controls

If price controls worked we could all live like kings. But, alas, they don't work. In fact, the enforcement of price controls has a much greater probability of enabling us all to live like beggars. Unfortunately, this sad fact has not proven much of a deterrent to the recurrence of such controls.

Early in this century it was perceived that in order to maintain "reasonable" prices in public transit, the supply would have to be limited. In exchange for the elimination of competition, the favored transit operators were made subject to rate regulation by a state or local agency. This seemed a good deal for the protected firms, since the initial impact was to outlaw price-cutting competitors. As the years passed, though, the price controls became more constraining. Today, the more typical situation in transit price control is one in which the decreed selling price is less than the real cost of providing service. Predictably, shortages developed as operators sought to shuck unprofitable routes or territories, cannibalized their operation through neglect of maintenance or nonreplacement of worn out equipment, and, in general, proceeded to go out of business.

The fact that public transportation may be viewed by many people as a necessity, or even declared a necessity by prominent public figures, does nothing to reduce the real cost of providing that service. Regardless of who may claim that public transportation is *too important* to be left to the free market, the

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amount of service that can and will be provided is still subject to the same economic incentives and disincentives as those enterprises blessed by the relative inattention of public policy makers.

The transformation of many urban transit systems into publicly owned and operated concerns has done nothing by way of controlling the cost of providing service. On the contrary, the transformation has more often ushered in higher costs and greater deficits. Real costs of providing service soar to new heights, but the fares charged can remain low as the required financial resources are extracted from the taxpayers. While this arrangement may temporarily hold down the prices charged to the transit rider, it also tends to create unrealistic attitudes that will carry substantial potential for bankrupting the whole system.

### Perverse Federal Intervention

With public transit, many people hoped that the appearance on the scene of the federal government would bring urgently needed medicine to the dying patient. Instead, the ministrations of federal nostrums have been akin to dosing the patient with poison while opening up his veins to let the "bad blood" out.

The "Feds," it seems, possess a kind of magical power—call it an inverted Midas touch—that ends up destroying nearly everything it comes into contact with. They can't even give money away without attaching conditions that assure failure. The federal government's role in "assisting" public transit has been variously described as inconsistent and ill-conceived, self-defeating, ineffective, a total failure. To be sure, these are only opinions of some of those who have critically examined the various federal aid programs. The record, however, does little to dispel these negative assessments.

The rationale for federal aid to public transit is that in some undefinable way the services to be provided are needed, but unprofitable for any private firm to supply. Two major themes in this line of argument are (1) that those persons needing the service the most are least able to pay for it and (2) that while the financial results of public transit may be portrayed in red ink, in terms of social benefit and total social costs, public transit is solidly in the black.

The standard rationalizations for the traditional approach to public transportation range from the cavalier disdain for the consumer preferences of those who "need" the service to the incredibly dense notion that there is no other way of doing things. One must suppose that it is only natural that an attitude of

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"beggars can't be choosers" would tend to develop among those who take a paternalistic view of the government's role in transit. Transportation is not the only thing that the low income person may not be able to afford. The specific provision of transportation of a particular kind is the embodiment of the belief that in-kind benefits must be supplied by government experts because the recipients are incapable of wisely choosing on their own. There is some logic to this position. After all, if low income individuals were as capable as the bureaucrats who determine what manner of in-kind services must be provided, there'd be no need for the whole government aid program.

### Marked to Fail

Whatever the motivation behind the choice of what type of service will be provided, the fact remains that the government has been bolstering very traditional types of transit systems. Many times, the program of federal aid is kicked-off by the purchase of a bankrupt or failing transit operation. This procedure alone makes for an inauspicious beginning. If a private bus line with substantial incentives to operate efficiently goes bust, what can we expect from a government-owned operation?

At the outset, we are faced with a suboptimal investment prospect. The calculus of consumer choice has already indicated the inappropriate nature of the service offered, otherwise the firm would not be failing. Add to this the tendency for the government to pay outrageously high prices for the assets of the defunct private line, and the potential for reasonably cost-effective performance is exposed as hopelessly wishful thinking. These salvage jobs on failing transit operations are expensive ways of perpetuating the types of services and practices that encourage patrons to abandon public transportation.

That the intervention of government has driven up the cost of providing "essential" service can be illustrated in two ways. Nationally, the financial burden of public transit on government resources has increased by 17,000 per cent since 1965. Proponents of the service supplied are wont to cite the "turnaround" in ridership under various municipally operated bus systems. However, each new rider is added at increasingly higher levels of marginal cost. The expenses incurred in order to attract each new passenger exceed the revenues generated by that passenger. It is a real life reenactment of the old joke about the shopkeeper who lost money on every sale, but hoped to make it up on the volume.

Even the sorry record portrayed above overstates the "success" of the

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bus system. The officially admitted losses are based only on operating expenses. No provision is made for capital expenses—neither interest cost nor capital consumption allowances are factored into the reported financial results. What this means, of course, is that the losses are grossly underreported. The capital equipment is accounted for as if it were a free good. Such a distortion results in misallocation of scarce resources and real social losses to the general welfare. Local administrators of public transit operations are induced to follow this course by the generous federal subsidies to transit. The federal government will pay up to 50 per cent of operating costs, up to 80 per cent of capital costs, and in some special programs, will bear the entire cost of vehicle acquisition.

These "good deals" are nearly impossible to refuse. Even a fairly sensible local transit administrator will find it difficult not to join in the waste of funds, knowing, as he does, that any money not expended on his own local system will be given to someone else. Under contemporary standards, the local public transit official who disdains to take his allotted place at the trough would surely be accused of neglecting his responsibilities.

The most humiliating feature of the federal intervention is the utter lack of success in achieving the professed major aims of the program. As a method of enhancing the mobility of the urban poor, federal aid has been ineffective and is unlikely to become effective in the foreseeable future. As a method of reducing traffic congestion, federal aid has been a colossal flop. The massive outlays have not significantly altered urban travel patterns. Research has not been able to find a single example of a significant and permanent reduction in auto traffic resulting from the federal transit program. Of the new passengers attracted to the Dan Ryan Express in Chicago, for example, fewer than 8 per cent of them were previously transported by automobile.

### Negative Results

The net effect of government involvement in transit has been negative. The infusion of funds, far from improving service, has more often helped to undermine the prospects for a sound urban transit system. The widespread "liberation" of transit networks from the milieu of "greed," which has been held as a cause of the downfall of many private transit firms, has not led to improved operating results. Relieving transit operations from the necessity to earn a profit has, as might have been expected, opened the floodgates of perpetual deficits.

The absence of financial profit as a measure of the success of a transit

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service severs the operations from any objective criteria with which to evaluate performance. Mere measures of seat-miles supplied, or even of ridership itself, reveals nothing of value if the costs to achieve these goals are ignored. How many seat-miles should be provided? What level of ridership is optimal? So far as can be ascertained, in the absence of a profit and loss gauge, not only do we lack any idea of the answers to these issues, but the federal transit program is carried out as if such issues didn't exist.

The most egregious error of government intervention in transit, though, has been the reluctance to consider liberation of the private sector. The unleashing of private enterprise transit would reduce the degree of control over the supply of this form of transportation that can be exercised by the public sector. But control is not a proper end in itself. It is only desirable if it can serve to improve the final product, which is the transportation itself. The historical experience of government-run or government-controlled business is not one to inspire confidence in mandatory centralized planning for transit.

There are substantial and convincing reasons to expect that a liberation of the private sector would significantly improve public transit. Natural market responses to transit needs would very likely be superior to even lavishly subsidized "planned" transit in a number of respects. First, private solutions to consumer demands are less costly than their government-sponsored counterparts. Second, private solutions to transportation needs would be more quickly implemented. In the marketplace, speed in bringing a product to market is a matter of utmost importance. In contrast, the lethargic responsiveness of state owned and operated enterprise is legendary. The very legitimate requirements of due process and representative government are handicaps when it comes to meeting consumer demands. Finally, private enterprise is more adaptive to changing conditions. In fact, private enterprise is one of the sources of changing conditions, as firms invent new ways of gaining advantage over rivals. The public sector is, by nature, conservative. It has no mandate to create new products and diluted incentives to adapt to changing conditions.

## Conclusion

There is a strong temptation to find someone to blame for the decrepit condition enjoyed by the transit industry. Conspiracy theories are all the rage these days. What's more, it would be comforting to think that a traditional lynching of the guilty would solve the pervasive problems of the industry. Unfor-

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tunately, the situation is not conducive to such conveniently simplistic solutions.

The poor service and high cost of public transit is a consequence of bad institutions. This is not to deny that corrupt government officials, and the like, may play significant contributory roles in the debacle that is mass transit. What is to be emphasized is that even were all the ne'er-do-well villains to be replaced by honest regulators, competent managers, and efficacious government officials, the results would be only marginally better.

We need to change the public institutions that impinge on the Transit industry. Transportation in this country can do very well without price controls, barriers to entry, federal subsidies, and the like.

The public sector has enjoyed its greatest successes in establishing conditions of civilized conduct that have freed men to create material abundance. In so far as the public sector must become involved in transit, its most productive line of pursuit would appear to lie in the creation of conditions conducive to the private solution of transit needs. The comprehensive, multimodal, integrated planning will take care of itself. The same market forces which turn raw land and seed into the bread in our noontime repast are eminently qualified to make public transportation once more a viable commodity.

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**Russell Shanon**

# Table Fable

In the clutter and bustle of our daily lives, how often we overlook or ignore the underlying reality of current situations! In the sphere of economic policy, it may be helpful, then, to recall a famous old tale, the fable of "Tom the Table Maker."

Once upon a time, so the story goes, in a cozy little bungalow on the edge of the Forest there lived a table maker named Tom Smith, his wife Eve, and their three happy children. Their lives were good, fulfilling ones, for while Eve tended the house

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and cared for the children, Tom worked in his shop making tables.

And what handsome, useful tables Tom's were! Tom carefully crafted them so they were sturdy and strong and then stained them with a deep, dark walnut finish whose glow reflected the young workman's pride.

Tom's tables were popular in the Neighborhood. People came from miles around to buy them and often returned for more, because the tables were useful in many ways and also made fine presents. People who received them as gifts were always glad to get something both practical and attractive.

Then one day, so the fable goes, something sad occurred. People stopped buying Tom's tables. They did drop in to Tom's shop from time to time for a friendly chat, but when they left, they were usually empty-handed.

Now Tom Smith was the jovial, optimistic sort. He enjoyed making his tables so much that he just kept at it. But gradually he began to realize that he was approaching the very brink of disaster. Unless he could sell his work, Eve would be unable to put food on their table. His optimism gave way to despair. "Alas and alack!" Tom thought. "What am I to do?"

One evening after giving all the children a kiss and bundling them off to bed, Eve sat down at the fireplace next to Tom. "I know you're worried," she said. "What's wrong?"

"No one wants my tables any more," Tom replied sadly.

Eve put her hand gently on his arm. "I know," she said; "I heard people talking in the Market today. Someone named Mot on the other side of the Forest is selling tables now. I hear they aren't as sturdy and beautiful as yours, but Mot sells them a lot cheaper and so our Neighbors are buying them."

"Whatever will I do?" Tom asked in dismay. "I just can't bear to compromise the quality of my tables." He sat rapt in thought for several minutes. Then his eyes lit up and he said to Eve, "Perhaps I should go to our Government in Dryington up on the Potogold River. The people there have power to stop the sale of tables from the other side of the Forest."

"True, you could do that," Eve replied, "but it would put Mot out of a job. I hear he's got a wife and children to feed, too. Besides that, our Neighbors seem happy to buy his tables, since now they have more money left over to buy other things." "Yes," Tom agreed, "you're right. But my tables are so handsome and so durable, it seems awful not to produce them. Maybe I could get our Government to buy some. They could be put in a museum somewhere for people to admire, and they sure would come in handy if Mot ever quit producing tables."

"But where will our Government

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get money to buy your tables?" Eve asked. "You know, the Potogold is really only water. Our Government will have to raise taxes to get the funds, and then our Neighbors won't be able to buy as many other things."

"Once again, you're right, Eve," Tom admitted. "But now I have really exhausted all my resources. Our children will starve. We won't be able to meet the mortgage payments on our cozy little bungalow."

"You're really not thinking about what your true resources are," Eve said, patting Tom on the shoulder. "Think about our farmers. If people stop buying the wheat they grow, what will they do? They'll grow corn, or oats, or tomatoes, or barley, or something else instead, People who weave cloth and make clothes can make something else people want, like buckets or bricks. Do as they do. Make chairs and benches instead."

"It will take time," Tom said, "to master the art of making chairs and benches. We'll still have to tighten our belts."

"We can stand that for a while," Eve said cheerfully, for both she and Tom were actually just a bit stout anyway. "In the end, you'll be making something people in the Neighborhood really want. That way, we'll all be better off."

And Eve was right. Of course, the Smiths did have to live on a leaner diet for a while, and once they almost missed the mortgage payment. Eventually, though, Tom was turning out such finely crafted chairs and benches of such admirable design that he could barely keep up with the orders. The Neighbors were proud of the wares they took home to their families and friends. In fact, even Mot bought some with his newly acquired Neighborhood money. And once again the Smiths had plenty to eat and mortgage money to boot.

One evening, while Tom was relaxing by the crackling fire, his wife sat down next to him. She was quiet at first, but after a few moments, she became philosophical. "It seems to many who've inquired into the subject," she said, "that Government subsidies and trade restrictions almost always end up doing more harm than good."

She went on: "Many people don't seem to realize it, but it's really through individual initiative, open competition, and free markets that we are most apt to achieve the greatest wealth for Neighbors—or even Nations." And saying that, Eve Smith beamed proudly at her husband, who responded with a knowing nod. ⊕

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Robert G. Bearce

# In Defense of Freedom—

# *Frederic Bastiat*

JUNE 1848 found Paris in turmoil as revolutionary mobs marched through the streets chanting an ominous: "We won't be sent away! . . . We won't be sent away! . . ." The French National Assembly had just abolished the National Workshops —the socialistic plan to "guarantee work for every citizen." The workshops had proven to be a social, political, and economic failure—just one of many idealistic schemes advocated by socialist demagogues. Now, armed members of the disbanded National Workshops were building barricades and preparing to fight for their lost "rights."

The June Revolution of 1848 was thwarted, but a year later France still faced the threat of socialism. The National Assembly echoed with impassioned speeches for the salvation of the French people. One of the Deputies to the Assembly who consistently and intelligently opposed the demagoguery of the social theoreticians was Frederic Bastiat—a modest, quiet-spoken Frenchman who was courageous in his defense of individual liberty.

Leaving the quiet life of a country gentleman for the feverish life of a legislator, Bastiat took with him an indomitable belief that individuals would work harmoniously together for the benefit of all so long as government intervention did not de-

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stroy free choice and voluntary exchange. With great clarity of thought, he defined the rightful purpose of government authority (the law):

"What, then, is law? It is the collective organization of the individual right to lawful defense.

"Each of us has a natural right—from God—to defend his person, his liberty, and his property. These are the three basic requirements of life, and the preservation of any one of them is completely dependent upon the preservation of the other two. For what are our faculties but the extension of our individuality? And what is property but an extension of our faculties?

"If every person has the right to defend—even by force—his person, his liberty, and his property, then it follows that a group of men have the right to organize and support a common force to protect these rights constantly. Thus the principle of collective right—its reason for existing, its lawfulness—is based on individual right. And the common force that protects this collective right cannot logically have any other purpose or any other mission than that for which it acts as a substitute. Thus, since an individual cannot lawfully use force against the person, liberty, or property of another individual, then the common force—for the same reason—cannot lawfully be used to destroy the person, liberty, or property of individuals or groups."

Bastiat continually emphasized the proper relationship between individual rights and government authority:

"Individuals cannot possess any right collectively that does not preexist in every person as an individual. If, then, the use of force by an individual is justified only in self-defense, the fact that government action is always based on the use of force should lead us to conclude that the proper functions of government are necessarily limited to the preservation of order, security, and justice. All actions of government beyond this limit are by usurpation."

## Government Usurpation

Bastiat comprehended why governments were allowed to usurp their powers. He was well-read in politics, history, philosophy, and religion—subjects which gave him profound insight into human nature. Human nature was the root of government usurpation. He saw how individuals have a tendency to reject personal responsibility and to look elsewhere for the necessities of life:

"Man recoils from effort, from suffering. Yet, he is condemned by nature to the suffering of privation if he does not make the effort to work. He has only a choice then, between these two: privation, and work. How can he manage to avoid both? He

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always has and always will find, only one means: *to enjoy the labor of others:* to arrange it so that the effort and the satisfaction do not fall upon each in their natural proportion, but that some would bear all the effort while all the satisfaction would go to others . . ."

As Bastiat continues, he speaks to current attitudes in America:

"Today, as in the past, nearly everyone would like to profit by the labor of others. No one dares admit such a feeling; he even hides it from himself. So what does he do? He imagines an intermediary; he appeals to The State, and every class in its turn comes and says to it: 'You who can do so justifiably and honestly, take from the public; and we will partake of the proceeds.' "

In other words: "The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else."

When individuals refuse to accept accountability and responsibility for their own welfare, they allow the State (the government) to corrupt the real purpose of the law:

"Under the pretense of organization, regulation, protection, or encouragement, the law takes property from one person and gives it to another; the law takes the wealth of all and gives it to a few—whether farmers, manufacturers, shipowners, artists, or comedians. Under these circumstances, then certainly every class will aspire to grasp the law, and logically so."

### Human Nature

While we suffer the consequences of government regulation and interference in our daily lives, Bastiat would ask us again to grasp the reality of human nature:

"Thus do all of us, by various claims and under one pretext or another, appeal to The State: 'I am dissatisfied with the ratio between my labor and my pleasures. In order to establish the desired balance, I should like to take part of the possessions of others. But that is a dangerous thing. Couldn't you facilitate it for me? Couldn't you give me a good post? Or restrain my competitors' business? Or perhaps lend me some interest-free capital, which you will have taken from its rightful owners? Or bring up my children at the taxpayers' expense? Or grant me a subsidy? Or assure me a pension when I reach my fiftieth year? By this means I shall achieve my goal with an easy conscience, for the law will have acted for me. Thus I shall have all the advantages of plunder, without the risk or the disgrace!'

"All of us are petitioning The State in this manner, yet it has been proven that The State has no means of granting privileges to some without adding to the labor of others."

The process of "plunder" by the State is easily seen in current

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events. Bastiat asks us a question and provides us with a clear, precise answer:

"But how is this legal plunder to be identified? Quite simply. See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime."

And, we are advised that "legal plunder can be committed in an infinite number of ways. Thus we have an infinite number of plans for organizing it: tariffs, protection, benefits, subsidies, encouragements, progressive taxation, public schools, guaranteed jobs, guaranteed profits, minimum wages, a right to relief, a right to the tools of labor, free credit, and so on, and so on. All these plans as a whole—with their common aim of legal plunder—constitute socialism."

While Bastiat was a Deputy in the National Assembly, he spoke forcefully against socialism and communism. Weakened by tuberculosis, he had to use his pen rather than his voice to carry on the fight for freedom. Using a style that was direct, vivid, and entertaining, he advocated sound monetary policies, limited government, a balanced budget, individual freedom, and free trade.

Throughout his comprehensive writings, he returned to the theme of law and liberty. "It is not true," he said, "that the function of law is to regulate our consciences, our ideas, our wills, our education, our opinions, our work, our trade, our talents, or our pleasures. The function of law is to protect the free exercise of these rights, and to prevent any person from interfering with the free exercise of these same rights by any other person."

## Individual Choice

As to the matter of individual liberty, Bastiat believed that individuals had both the ability and responsibility to plan their own lives as they best saw fit . . . without government interference. He believed individuals were capable of making sound judgments and acting upon those judgments. At a time when the economy and consumerism occupy so much of our news commentary, Bastiat's view on individual choice, the free market, personal judgment, and the "public interest" should be well received.

"It is necessary to treat economics from the viewpoint of the consumer. All economic phenomena, whether their effects be good or bad, must be judged by the advantages and disadvantages they bring to consumers."

Bastiat always had individuals (consumers) in mind when he wrote about monetary policy, banking, transportation, exports and imports,

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profits, labor, and wages. Whenever he approached these matters, he upheld individual liberty and opposed oppressive government interference. Above all, he kept one basic truth before him:

"In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; *it is seen.* The other effects emerge only subsequently; *they are not seen;* we are fortunate if we *foresee* them.

"There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen.*

"Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa. Whence it follows that the bad economist pursues a small present good that will be followed by a great evil to come, while the good economist pursues a great good to come, at the risk of a small present evil."

Bastiat's insight into what is seen and not seen contrasts sharply with much of the stodgy, ponderous writing on economics of his day. He had the ability to present serious economic principles in a way that was easily read and understood by the average citizen. Although he possessed a keen intellect and sense of concentration, he expressed himself in simple, frank language. Often, he combined his vigorous logic with humor, satire, irony, and wit.

Although he was an optimistic defender of liberty, he was fully aware of where his native France was heading—just as he knew where any nation was headed when politicians were allowed to create a centralized, all-powerful government to achieve social objectives. Witnessing the political demagoguery in the National Assembly, he was prompted to write:

"This must be said: There are too many 'great' men in the world—legislators, organizers, do-gooders, leaders of the people, fathers of nations, and so on, and so on. Too many persons place themselves above mankind; they make a career of organizing it, patronizing it, and ruling it."

### Ideological Warfare

Today, we have the same breed of legislators and leaders—individuals who are the cause of the political struggle that confronts all free people. Bastiat focuses our attention upon this ideological warfare, urging us to place liberty in perspective:

"Actually, what is the political struggle that we witness? It is the

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**Frederic Bastiat**

instinctive struggle of all people toward liberty. And what is this liberty, whose very name makes the heart beat faster and shakes the world? Is it not the union of all liberties—liberty of conscience, of education, of association, of the press, of travel, of labor, of trade? In short, is not liberty the freedom of every person to make full use of his faculties, so long as he does not harm other persons while doing so? Is not liberty the destruction of all despotism—including, of course, legal despotism? Finally, is not liberty the restricting of the law only to its rational sphere of organizing the right of the individual to lawful self-defense; of punishing injustice?"

Yes, that is the true meaning of liberty, but now we are experiencing the perversion of the law—law which is supposed to defend individual freedom, not destroy it. Government—the law—has assumed an illusionary omnipotence, omnipresence, and omniscience in socio-economic matters.

"How," asks Bastiat, "did politicians ever come to believe this weird idea that the law could be made to produce what it does not contain—the wealth, science, and religion that, in a positive sense, constitute prosperity? Is it due to the influence of our modern writers on public affairs?

"Present-day writers—especially those of the socialist school of thought—base their various theories upon one common hypothesis: They divide mankind into two parts. People in general—with the exception of the writer himself—form the first group. The writer, all alone, forms the second and most important group. Surely this is the weirdest and most conceited notion that ever entered a human brain!

"In fact, these writers on public affairs begin by supposing that people have within themselves no means of discernment; no motivation to action. The writers assume that people are inert matter, passive

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particles, motionless atoms, at best a kind of vegetation indifferent to its own manner of existence. They assume that people are susceptible to being shaped—by the will and hand of another person—into an infinite variety of forms, more or less symmetrical, artistic, and perfected.

"Moreover, not one of these writers on governmental affairs, hesitates to imagine that he himself—under the title of organizer, discoverer, legislator, or founder—is this will and hand, this universal motivating force, this creative power whose sublime mission is to mold these scattered materials—persons—into a society."

### The Law Perverted

Bastiat understood the motivation and mentality of social architects who corrupt the law. Although he did not question the good intentions held by many legislators, he stressed what happens to individuals when the law is perverted:

"It substitutes the will of the legislator for their own wills; the initiative of the legislator for their own initiatives. When this happens, the people no longer need to discuss, to compare, to plan ahead; the law does all this for them. Intelligence becomes a useless prop for the people; they cease to be men; they lose their personality, their liberty, their property."

Human degradation and misery will be the tragic result when self-appointed caretakers of society begin to regulate . . . inspect . . . tax . . . coerce . . . bridle . . . control . . . organize . . .

"The claims of these organizers of humanity," said Bastiat, "raise another question which I have often asked them and which, so far as I know, they have never answered: If the natural tendencies of mankind are so bad that it is not safe to permit people to be free, how is it that the tendencies of these organizers are always good? Do not the legislators and their appointed agents also belong to the human race? Or do they believe that they themselves are made of a finer clay than the rest of mankind?"

We should be asking these same questions of our own politicians, government officials, members of the media, and educators—whoever would use government to further their particular beliefs for organizing our health, education, and daily welfare. To the extent that we depend upon government to direct our lives, we will see the deterioration of freedom.

"Away, then," says Bastiat, "with quacks and organizers! Away with their rings, chains, hooks, and pincers! Away with their artificial systems! Away with the whims of governmental administrators, their socialized projects, their centralization, their tariffs, their government

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THE LAW is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do: to protect persons, liberties, and properties; to maintain the right of each, and to cause *justice* to reign over us all.

schools, their state religions, their free credit, their bank monopolies, their regulations, their restrictions, their equalization by taxation, and their pious moralizations!"

### A Continuing Problem

Bastiat's exhortation comes at a time when freedom is on the defense. Government continues to expand and become more oppressive. Legislative and Administrative commissions, boards, committees, departments, and agencies abuse their power—drawing us further into socialism.

In 1848, Bastiat had no illusions about the socialistic road France was taking. Although many of the politicians of his day honestly denied they were socialists, their beliefs and actions were, nevertheless, undermining freedom. Ideological and political labels aside, many of our own public officials and "opinion molders" are working against freedom, not realizing that their actions are basically socialistic. We need to stand firm for freedom as Bastiat did—exposing socialism and making certain that our individual lives are guided by personal responsibility, accountability, voluntary cooperation, and individual initiative.

As we accept the responsibilities of freedom, we can share Bastiat's hope for the present and future:

"And now that the legislators and do-gooders have so futilely inflicted so many systems upon society, may they finally end where they should have begun: May they reject all systems, and try liberty; for liberty is an acknowledgment of faith in God and His works."

**Editor's Note:** Unfortunately for all of us, Bastiat died of tuberculosis at the height of his battle for freedom in 1850. Those who would carry on the task might well begin with *The Law* by Bastiat ($1.00) and *Frederic Bastiat: A Man Alone*, a biography of the man and his times by George C. Roche III ($3.00). These, as well as other books by and about Bastiat, are available from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.

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# *Forty Centuries of Wage and Price Controls*

PRESUMABLY the ability to add, subtract, multiply and divide is one of those things that distinguishes men and women from the beasts. If this were universally the case even a fourth-grader should be able to understand that when the money supply is increased over and above the availability of goods, prices will rise. Two times one is always more than one times one. There is no mystery about inflation. The only mystery is that of human stupidity. There are always people who think that wage and price controls can be imposed by force, and there are always politicians to cater to them. The result, in history, has always been the same: a period of repressed inflation, followed by the breakdown of law and order and the disappearance of goods from the open market as the black marketeer takes over.

References have often been made to what happened to the Roman Empire when Diocletian, some time after his ascension to the throne in 284 A.D., tried to fix wages and prices in relation to an overvalued copper denarius. Strangely enough, however, there has been no available history of wage and price controls in any single volume. This deficiency impressed Robert L. Schuettinger and Eamonn F. Butler when, after the failure in 1974 of President Richard Nixon's experiment in controls, they began looking into the subject.

The result has been a fruitful collaboration between Schuettinger, an American historian, and Butler, a British economic analyst, with research help from Andrew Chalk, a Walker Fellow in Economics at the Heritage Foundation in Washington, D.C. The volume they have produced is called *Forty Centuries of*



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*Wage and Price Controls: How NOT to Fight Inflation,* which comes with a discerning foreword by David I. Meiselman, who notes, somewhat despairingly, that the public opinion polls still show that a majority of U.S. citizens prefer mandatory controls to "guidelines." The book is published by the Heritage Foundation and distributed by Caroline House, Inc. (P.O. Box 161, Thornwood, N.Y. 10594, 186 pp., $9.95 cloth; $4.95 paperback).

### The History of Controls

Mr. Schuettinger has been primarily responsible for the first half of the book, which accounts for thirty-nine out of the forty centuries of monkeying with natural market prices for goods, services and capital investment. It is a lamentable story that Schuettinger tells in rigorously condensed narrative. The Egyptians tried "planning" in their fifth dynasty (2830 B.C., or earlier), with an attempt to control the grain crop. Regulation of grain prices led to direction of planting and, eventually, to outright seizure of the fertile Nile acres by the monarch. With his "bronze law," the monarch set control of wages that showed an early addiction to belief in the "iron law" that supposes that wages cannot be allowed to rise above the bare necessities for keeping workers alive. There was no Francis Amasa Walker or John Stuart Mill—or Henry Ford—to tell the Egyptians that wages can be upwardly adjusted to productivity (it is what a worker can turn out in a given hour that counts), so it is hardly surprising that the Egyptian economy should have collapsed along with the political stability of the State.

It was the same story in the lands watered by the Tigris and the Euphrates. Sumeria had its period of respite under King Urakagina of Lagash, a precursor of Ludwig Erhard (see Antony Fisher's *Must History Repeat Itself?).* Urakagina began his rule in 2350 B.C. by abolishing controls on wages and prices, and gave us a word for "freedom" for the first time in recorded history. (The word was "amargi," which means literally a "return to the mother.") But when Hammurabi promulgated his famous code in Babylon, it was filled with explicit economic directions. A field worker was to get eight "gur" of corn per annum; a herdsman was to get six. An experienced ass hired out for threshing should command ten "ga" of corn, but if the animal was young —a bestial apprentice—its hire should be one "ga." The pay for a potter was fixed at five grains of silver. And so it went. The historical records of "strong" government in Babylon show a decline in trade in the reign of Hammurabi and his successors, with the number of administrative documents—what we

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today would call bureaucratic paper work—increasing at a precipitous rate.

### Lessons from China, Greece, and Rome

In ancient China, the attempt to get around the law of supply and demand fared no better. Mr. Schuettinger tells us about two perceptive Chinese economists who anticipated the formulation of Gresham's Law. "As soon as paper is employed," so Yeh Shih wrote in the twelfth or thirteenth century A.D., "money becomes still less." (Meaning, of course, hard money.) And Yuan Hsieh noted that "because the paper money was too much, the price of commodities was dear."

The Greeks found it impossible to enforce laws set to control the grain trade, but the Romans didn't learn anything from the Greek failure. Diocletian, when he took over, found himself victimized by the devaluations and the debasements of the coinage that had taken place under Claudius Victorinus. The trade of the Empire had been reduced to barter, the middle class was practically obliterated, and the proletariat was sinking into serfdom. Diocletian tried to "reform" it all by putting a stop to the production of debased gold and silver coins. But his new denarius, which was frankly of copper, was overvalued. To continue his "reform," Diocletian tried fixing the prices of goods and services while simultaneously suspending the freedom of people to decide what the copper denarius was really worth. The penalty for evading the famous Diocletian Edict of 301 A.D. was death. But killing traders did not bring goods to market. Diocletian was forced to abdicate, and when the barbarians took over it was often with relief to both the poor and the rich.

Coming on down to relatively modern times, Schuettinger has only a repetitive tale to tell. Washington's army at Valley Forge almost starved to death during the period in which the Continental Congress was trying to fix commodity prices. The Law of the Maximum worked only havoc in French Revolutionary times. When, at the end, they were carrying Robespierre through the streets of Paris to his execution, the mob jeered "There goes the dirty Maximum." The Southern Confederacy tried to fix prices, but without effect until, in 1864, a currency reform reduced the money in the South by one third. It was then too late, for the Northern forces had already reduced the size of the Confederacy to rump proportions.

The research done on the German inflation by Andrew Chalk, with its quotations from Thomas Mann and Walter Eucken, is as shrewd as has ever been done. As Mann has writ-

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ten, "A straight line runs from the madness of the German Inflation to the madness of the Third Reich. . . . It was during the inflation that the Germans forgot how to rely on themselves as individuals and learned to expect everything from 'politics,' from the 'state,' from 'destiny.' . . . The millions who were robbed of their wages and savings became the 'masses' with whom Dr. Goebbels was to operate. . . . Having been robbed, the Germans became a nation of robbers."

The analytical chapters, largely the work of Eamonn Butler, make it undubitably plain that it is "the Federal Reserve rather than the coffee in Brazil, the freeze in Florida or even the Arab oil cartel which is the principal factor in the U.S. inflation story." But will the politicos take note? They seldom have. ⊕

**INVENTORY OF THE PRIVATE PAPERS OF LUDWIG VON MISES**
Catalogued by L. John Van Til
(Public Relations Office, Grove City College, Grove City, Pennsylvania 16127)
1979
79 pages ■ $1.50 8½" × 11" paperback.

*Reviewed by Bettina Bien Greaves*

ANYONE seriously interested in the work and writings of the late Professor Ludwig von Mises will be glad to know that his papers have been preserved and are now available for research at Grove City College, Grove City, Pennsylvania.

When the Professor died in 1973, at the age of 92, his widow wanted to make sure that future generations of students would have access to the books and papers he had used when working on his own books and articles. His library of books was sold to Hillsdale College (Hillsdale, Michigan), but Mrs. Mises chose to retain his pamphlets, correspondence and other papers to dispose of separately. She spent a great deal of time and effort after his death sorting them out and arranging them to be easily viewed and analyzed. When this task was completed, she offered them to several large university libraries without finding a taker. Then Grove City College, a small liberal arts college in western Pennsylvania, made an offer she accepted.

A large part of the library Mises had assembled in Vienna, prior to his move to Switzerland in 1934, was destroyed when the Nazis marched into Austria in 1938. Fortunately, he had taken with him quite a few of his more important books and pamphlets. Thus, many pamphlets dating from his Vienna days were saved and are included here among these papers. He had very carefully filed them all by subject matter in suitably labeled pamphlet boxes and big brown envelopes. He kept the correspondence about his books in large cardboard

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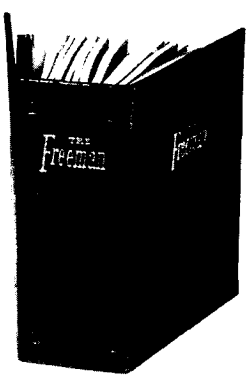
cartons. The letters from personal friends, students and admirers, sometimes with carbon copies of his usually very brief replies, were filed in cabinets and desk drawers. This is the material that Mrs. Mises sorted through and that Grove City College's Professor L. John Van Til has now painstakingly gone over.

This inventory consists of two long lists—one of pamphlets, reprints and book reviews arranged by language, and the other of correspondence. Items on both lists are arranged alphabetically by author and keyed by number to their location on the college library's shelves. Professor Van Til's most exciting findings, mentioned only in his Preface, are "thousands of pages of unpublished manuscripts." We presume these are in Mises' own precise handwriting and are still to be gone over carefully before any decision may be made as to their disposition.

This inventory is preceded by a short biography of Mises, setting forth some of his more significant contributions and experiences. Students across the nation and the years interested in exploring Ludwig von Mises, the man, his ideas and his relationships with friends, students, admirers of his work and casual acquaintances, will be grateful to Mrs. Mises, Grove City College and Professor Van Til for making these materials available.

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